Calendar No. 615

82D CONGRESS
*1st Session*

SENATE

REPORT
No. 649

# STUDY OF RECONSTRUCTION FINANCE CORPORATION AND PROPOSED AMENDMENT OF RFC ACT

## REPORT

OF THE

## COMMITTEE ON BANKING AND CURRENCY

TO ACCOMPANY

S. 515 AND TO SERVE AS A FINAL REPORT PURSUANT TO S. RES. 219 (81ST CONG.)

TOGETHER WITH THE

INDIVIDUAL VIEWS OF MR. FULBRIGHT; THE MINORITY VIEWS OF MR. CAPEHART AND MR. BRICKER; AND THE INDIVIDUAL VIEWS OF MR. BENTON

AUGUST 20 (legislative day, AUGUST 1), 1951.—Ordered to be printed

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# STUDY OF RECONSTRUCTION FINANCE CORPORATION AND PROPOSED AMENDMENT OF RFC ACT

AUGUST 20 (legislative day, AUGUST 1), 1951.—Ordered to be printed

Mr. FULBRIGHT, from the Committee on Banking and Currency, submitted the following

## REPORT

*Together with the*

## MINORITY VIEWS AND INDIVIDUAL VIEWS

[To accompany S. 515 and to serve as final report pursuant to S. Res. 219]

The Committee on Banking and Currency, to whom was referred the bill (S. 515) to amend the Reconstruction Finance Corporation Act, having considered the same, report thereon with amendments but without recommendation.

The Committee on Banking and Currency accepted and approved the report of the Subcommittee on Reconstruction Finance Corporation, and authorized its submission to the Senate.

### PREFACE

The Subcommittee on Reconstruction Finance Corporation having been designated by the Banking and Currency Committee of the Senate to conduct a study of the operations of the RFC, pursuant to the terms of Senate Resolution 219, adopted February 8, 1950, herewith submits its final report on the study.

The subcommittee has issued four interim reports. The first, a report on the Texmass Petroleum Co. loan, was issued on May 19, 1950. The second, a report on the Lustron Corp. transportation contract, was issued on August 11, 1950. The third, on the subject of Favoritism and Influence, was issued on February 5, 1951. And the fourth, a report on the loans to Kaiser-Frazer Corp., was issued on July 19, 1951.

In issuing the report on Favoritism and Influence, the subcommittee announced that it would be supplemented by two further interim reports, but the public response to the report on Favoritism and Influence was such that this plan was dropped, and, instead, the subcommittee held a series of open hearings in which the details of its

inquiry into this phase of RFC operations were spread on the public record through the testimony of witnesses. In the opinion of the subcommittee these hearings fully substantiated the report. They have been printed in two volumes designated as Lending Policy, Part 2, and Lending Policy, Part 3.

The hearings printed as Lending Policy, Part 1, were held during the summer of 1950. They are concerned primarily with the more technical aspects of Government lending. In addition to the three volumes on lending policy, the subcommittee has printed and distributed in this special study, a volume of hearings each on the loans to Texmass Petroleum Co. and Waltham Watch Co., a volume covering a discussion of RFC income and costs, and a volume covering the inquiry into administration of the contract under which Lustron houses were transported from factory to erection site. The report on the Kaiser-Frazer loans was prepared exclusively from data accumulated in studies made by the staff of the subcommittee; no hearings were held on these loans.

## Minority Report

A minority of the subcommittee, consisting of Senator Capehart and Senator Bricker, have certain reservations concerning the final report of the subcommittee. These reservations are set forth in a separate minority report.

## Legislative Proposals Resulting from the Study

In its report on Favoritism and Influence, the subcommittee reported favorably S. 514, a bill which proposed the substitution of a single Administrator in place of the then five-man Board of Directors of RFC. A substantially similar reorganization of the Corporation's top management structure was accomplished on May 4, 1951, when Mr. W. Stuart Symington took office as Administrator under the President's Reorganization Plan No. 1 of 1951. The plan had been submitted to the Congress on February 19, 1951; its proposed rejection failed in the House of Representatives on March 14, and in the Senate on April 13, 1951.

The subcommittee has had under consideration and has reported favorably S. 515, a bill to amend the Reconstruction Finance Corporation Act. This bill, which is discussed at some length later in this report, was introduced by the chairman of the subcommittee on January 16, 1951. It was put forth as the tentative product of the special study under Senate Resolution 219, and in order to afford the Senate an opportunity to become familiar with the legislative needs as they then appeared to the subcommittee.

The disclosures made in the subcommittee's third interim report, and in the public hearings which followed its release, attracted some attention. They aroused an unusual public interest in the functions and activities of RFC. While the hearings were being held, abolition of the Corporation was proposed by a number of Members in each House of the Congress and when S. 515 came under consideration in the Senate Committee on Banking and Currency, it was considered along with a number of the bills seeking to abolish the RFC, and along with certain other measures affecting the general field of Government lending to business enterprises. The latter included a proposal for

the establishment of a system of capital banks which, if perfected, would provide a Government-sponsored source of private financing sufficiently broad to cover much, if not all of the area now served by the RFC.

On June 24, 1951, the Committee on Banking and Currency resolved that it would report to the Senate without recommendation the proposal that RFC be discontinued. Since S. 515 is a bill which contemplates the continued existence of the Corporation, and the failure of proposals to abolish it, the committee resolved at the same time that it would report S. 515 also without recommendation.

The subcommittee recommends that favorable action be taken with respect to S. 515 if the measures seeking abolition of RFC fail to be accepted.

## Should RFC Be Discontinued?

The subcommittee has not addressed its studies under Senate Resolution 219 to the question of whether RFC should or should not be continued as an agency of the Government of the United States. This is largely a question of social and governmental philosophy at the present time.

It has been asserted with some frequency in recent months that the RFC is no longer necessary as a part of the governmental structure. It has been asserted, also, to the contrary, that there is a genuine need for its services. Both the need and the absence of it have been demonstrated in testimony recently taken by the Committee on Banking and Currency, but neither the need nor its absence has been established. There is a strong probability that neither can be established, conclusively.

When the subcommittee's special study began in February 1950, it was the position of the Committee on Banking and Currency that RFC should continue to be an active agency of the Federal Government, and though the matter has recently been under reconsideration, the committee has taken no other position. The committee's view that RFC should be continued was adopted in March of 1948. The committee stated in its report No. 974 at that time:

> It is clear that the need which led to the creation of RFC in 1932 is no longer present and that continuation of RFC must be justified on a basis other than that upon which its original creation was justified * * *.

In March 1948, it was felt that the following were persuasive arguments for not permitting the existing agency to expire:

1. RFC, or an agency like it, may be needed in the future, should there again be national emergencies arising out of financial crises similar to that which existed in 1931 and 1932, or out of national defense crises similar to that which existed in 1940;
2. There are certain useful functions which can be performed by RFC during normal times; and
3. Based on the record, it appears that RFC breaks even or earns a financial profit in its lending operations, and accordingly, its continued existence costs the Government little or nothing.

The subcommittee believes that the question of RFC's discontinuance will not be answered conclusively until there has been a frank, unbiased, and comprehensive study of the entire problem of the ownership and financing of business enterprises in the United States under present-day conditions, and in the foreseeable future. Such a study

would take account of all of the important influences that bear on the sources of capital and the costs of channeling it into particular enterprises. It would attempt to develop an objective approach to the consideration of business bigness and business smallness. It would inquire into the present-day differences between owner's capital and lender's capital. It would take account of alleged monopolistic practices in the money markets. It would take account of the effect which the Federal deficit has on commercial banking practices, the effect which bank examination, and other regulatory activities have on commercial banking practices, and the effect on the money market which results from Government competition with private business. Competition occurs to some degree directly, and it occurs to some degree indirectly by the Government's absorption of private savings through bond sales and other savings programs. To be complete insofar as RFC lending is concerned, the study would devote some attention to the general concept of business failures in a competitive economy, since there is certainly a proper place for failures in any healthy economic structure. Last, and not least, the study would take account of the discouragement of capital investment which arises from the form and magnitude of the annual levy of Federal taxation.

The subcommittee, under the authority of Senate Resolution 219, has confined its study to a review of the operations of the RFC, and has not attempted to answer the question of whether or not it should be abolished. That question had been decided by the Eightieth Congress in 1948, by an act which extended the life of the RFC for a period of 6 years (until 1954). It did not arise again, as a practical legislative question, until this subcommittee's study under Senate Resolution 219 was virtually complete. For this reason, the question was not reexamined by the subcommittee. Pending a proper examination of this question, and the development of whatever substitute for the RFC which may be found necessary, a majority of the subcommittee believes that the RFC should not be abolished.

## Independence the Keystone of Government Lending

The Hoover Commission got to the heart of all major RFC problems when it said, with respect to the concept of independence:

> Direct lending by the Government to persons or enterprises opens up dangerous possibilities of waste and favoritism to individuals or enterprises. It invites political and private pressure, or even corruption (Report on Federal Business Enterprises, March 31, 1949.)

The details of the subcommittee's findings in this field have been published in its third interim report and in the printed hearings designated as Lending Policy, Part 2, and Lending Policy, Part 3. There is no safeguard for independence but eternal vigilance.

Since its creation in 1932, the RFC has been, by congressional intent, one of the Government's independent establishments, reporting both to the Congress and to the President of the United States. It has been a part of the executive branch, but its powers and its duties have been established exclusively by law and it has not been administratively a part of any of the departments or other establishments in the executive branch.

From July 1, 1939, to June 30, 1947, there was a Federal Loan Agency in the governmental structure. At the outset the FLA in-

cluded most, if not all, of the establishments engaged in lending, but the character of RFC and the congressional intent regarding its independence were not modified by its inclusion in the group. Nor was its management pattern changed. Mr. Jesse Jones had been Chairman of the Board of the RFC. He became the Federal Loan Administrator. In both positions he functioned virtually as general manager of the RFC.

From September 1940 to February 1945, RFC was associated with the Department of Commerce by reason of Jesse Jones holding at the same time both the office of Secretary of Commerce and the office of Federal Loan Administrator. This circumstance did not interfere with congressional intent regarding the independent character of RFC, and, as a practical matter, it may have left the Corporation's actual independence unimpaired. However, it was one of a number of conditions which obscured the agency's independent character in the minds of many people, including officials of the Government and Members of the Congress. It may have interfered with the vigilance necessary to safeguard the Corporation's true independence.

During the early 1930's when the Government was conducting large-scale emergency relief programs, RFC was employed as a sort of fiscal agent for other Government agencies. It had the authority to borrow money from the Treasury and it enjoyed the confidence of the Congress, primarily perhaps because most of the Members of Congress had confidence in the personal integrity and the business judgment of Jesse Jones. This combination of circumstances made it possible for RFC to be used as the vehicle for huge disbursements of public money without the delays and without the reputed loss of effectiveness which might have attended the clearance of such disbursement programs with the Appropriations Committees of the Congress. The employment of RFC in these governmental (as distinguished from commercial-type) activities was perhaps the earliest instance in which the fundamental independence of the agency began to be obscured in outward appearances. It certainly reflected a relaxation of vigilance on the part of the Congress. In Jones' administration, however, considerable care was taken to keep the governmental programs separate from the so-called normal activities of the RFC. The degree of separation actually attained has been questioned on the basis of audits made in later years.

The incidence of World War II, and the demands of the defense period which preceded it, plunged the RFC into other large scale governmental programs. In these, as in the relief programs, the Corporation acted as the Government's fiscal agent, and, as in the relief programs, RFC had the outward appearance of being an integral part of the executive branch, coordinate in every major respect with the other departments and establishments. The "normal" lending programs were still conducted on an independent basis and the RFC was still regarded as primarily an independent establishment, though it seemed that the tail was wagging the dog during much of this period.

The magnitude and the long duration of the wartime activities made their impression upon the internal organization of RFC as well as on people outside the agency. It cannot be said with certainty that the concept of independence was clearly understood at the various

working levels in the RFC when the Government emerged from wartime conditions to enter the postwar period.

In the month of March 1948, the Senate Committee on Banking and Currency concluded a study made in connection with revision of the RFC Act, and it issued its Report No. 974, frequently quoted during the course of the special study to which this present report refers. The committee dealt with the question of independence of the RFC, and in its report it presented a very able statement of principle on this subject. It said:

> It is the opinion of this committee that, in those fields in which RFC has the responsibility for its actions, it should be allowed to exercise its discretion free from interference by other governmental agencies and departments and, for that matter, free from all influence whether from officials in the Government or from Members of Congress. Only under those circumstances can RFC be expected to do its job properly and with full accountability. Attempts to influence the business judgments of RFC by the use of political influence, even though well intended, are a constant menace to sound administration. While the general policies of the RFC, like those of other Government agencies, should be reviewed and coordinated by the President, this general review should not extend to particular loans. The business decisions of RFC should be the independent judgments of its Board of Directors.

Notwithstanding publication of this statement in 1948, the agency's sense of independence failed to be refreshed, and there developed the serious difficulties discussed at some length in this subcommittee's third interim report. This is the report on favoritism and influence which was published on February 5, 1951.

The Directors had fallen into the habit of discussing RFC business with people who had no responsibility for it nor valid interest in it, including people whose enterprises were borrowers from the RFC, people who allegedly represented themselves to be influential with the RFC as borrowers' intermediaries, and people whose principal activities were in the field of partisan politics. Certain Washington attorneys had become specialists in the handling of RFC loan applications. They attained reputations for success with RFC matters, and their clients appeared with increasing frequency among the organizations which became borrowers from the RFC.

It became accepted practice, in many instances, for loan applicants to seek introduction to the Directors of RFC, or to some of them, through officials of the Democratic National Committee. It became accepted practice, in many instances, for borrowers, or their attorneys, to confer directly with members of the RFC Board at critical points in the processing of the loan applications. It became less and less unusual for the Directors of the RFC to override the judgment and recommendations of the Corporation's examiners and review boards. It became the accepted practice for members of the Board of Directors to confer directly with loan examiners during the course of the loan examinations, and before the examiners had finished making their reports. Patterns of operation developed in which certain members of the Washington staff of examiners emerged repeatedly as the men responsible for examination of those applications on which the Board finally differed with its top review committee, and there were other circumstances which indicated that the process of examination of loan applications and the process of their consideration by the Board had departed from objective principles of lending.

At one point during the course of the subcommittee's hearings on this subject, it became apparent that the Board of Directors, as then

constituted, tacitly acknowledged its responsiveness to external influence. One of the Directors testified that he had been instrumental in bringing about a departure from the customary loan-examination procedures for an applicant who was a friend, and he testified that he would do the same for any friend (hearings, p. 660). This same Director and others testified concerning their participation in accumulating a sheaf of congressional correspondence in order to show that Members of the Congress had influenced the making of loans. A proper accounting for the discharge of their responsibilities would have required that the Directors show they had not yielded to special influence of any sort, whether from within the executive branch or within the legislative branch of the Government, or from outside the Government.

In closing its special study under Senate Resolution 219, the subcommittee earnestly recommends that the paragraph on independence, quoted from Report No. 974, be read and reread, and genuinely understood, not only in the RFC, but throughout both the executive and the legislative branches of the Government. In the RFC, it should be foremost among the principles of lending.

## The Public Interest in RFC Loans

In Report No. 974 the predecessor of this subcommittee recommended as an additional "control" upon the lending powers of the RFC the following:

> In deciding whether to grant a loan, the primary consideration should be the interest of the general public rather than the interest of the individual borrower * * *. The committee believes that RFC should not engage in lending of a purely private character where the benefit to the general public is remote, whether the loans be large or small.

This test was not intended to add to the lending powers of the Corporation, nor to minimize or weaken the statutory restrictions and limitations. On the other hand, in this subcommittee's view, it was intended as an additional limitation to be considered and applied only when a loan had otherwise qualified for assistance from public funds by coming within the statutory purposes and powers, and meeting the test of the statutory restrictions and limitations. In other words, after a loan has clearly qualified under the statute then, and then only, should the question of public interest be raised or considered.

The subcommittee realizes that the test of public interest is a broad one, susceptible to many varieties of meaning. Used as an additional reason for the granting of loans, it would serve, and it has served, to expand the Corporation's authority immeasurably and to preclude a clear accounting for the exercise of such power. Used as an additional check upon the powers of RFC, however, the test, though broad, will have genuine utility.

When the subcommittee examined the $15,000,000 loan to Texmass Petroleum Co. in April 1950, it was disturbed that in the Corporation's official statement to the subcommittee, and in the testimony of RFC officials, the concept of public interest seemed to have been employed as an addition to the statutory lending powers. It was used as the primary factor in justification of the loan. The comments in the Corporation's statement on the loan under the caption "Public Interest"

pointed to the importance of oil to our national economy, the need of conserving oil resources, and the possible repercussions in a locality from business failures. One of the Directors testified that he was moved to vote affirmatively for the loan primarily on the ground that for national defense it is imperative to conserve oil resources, and he had been informed that rehabilitation of the Texmass wells would accomplish this objective.

When the subcommittee concluded its study of the Texmass loan, it held the view that subordinate officials of the RFC came nearer the proper interpretation of the concept of public interest than the Directors did. The later studies indicate that this was more nearly a general condition than a circumstance peculiar to the Texmass loan.

The subcommittee is encouraged by the consistency with which the review committee in the Washington office of RFC made understandable and acceptable findings on the question of public interest in the loans which came under its scrutiny. It recommends for the guidance of the Corporation's present management a study of the findings of the review committee on those loans.

## Revision of the RFC Act

The bill known as S. 515 proposes a number of changes designed to strengthen the RFC Act by clarifying the Corporation's responsibilities, and by improving its accounting methods and its financial structure. The bill has the further aim of strengthening the control which the people of the United States exercise through the Congress over the lending of public moneys to private individuals and business concerns.

The principal change contemplated by this bill when it was first introduced has already been made. It was the substitution of a single administrator for the present Board of Directors of the Corporation and the elimination of that Board. This change was proposed separately in S. 514 and it was discussed at some length in the subcommittee's third interim report (Rept. No. 76, 82d Cong., 1st sess.). The substitution has been accomplished by the provisions of Reorganization Plan No. 1 of 1951, except for one condition. Reorganization Plan No. 1 does not limit the term of office of the Administrator of RFC. Under S. 515, the Administrator's term would be limited to a 3-year period.

### Clarification of the Corporation's Responsibilities

The present bill seeks to strengthen the control over the activities of RFC by clarifying the responsibilities of the Corporation in three important respects. It eliminates those provisions of the present act under which the Corporation is enabled to share its responsibility for certain specific loans with other agencies of the Government, it reclassifies one important limitation imposed by the present act so as to clearly require that it be observed as a condition precedent to lending, and it imposes one new requirement as a condition precedent to the exercise of the lending power.

Under the present RFC Act, approval of the Interstate Commerce Commission and approval of the Civil Aeronautics Board are required before the RFC can finally approve the making of loans to railroads

and air carriers. The Civil Aeronautics Board is required by its organic legislation to accept the responsibility of granting such approvals. These circumstances have imposed on the Civil Aeronautics Board the occasional necessity that it make decisions which cannot possibly be objective decisions. If the Board has approved an RFC loan to a specific carrier it can scarcely avoid the granting of a sufficient subsidy to assure that the loan can be repaid.

This bill eliminates the requirement for ICC or CAB approval of RFC loans and in this way it imposes on the Administrator of RFC, without qualification, the full responsibility for any and all loans made by the Corporation.

The bill also eliminates the requirement that the Secretary of the Treasury make certain certifications in connection with RFC loans to insurance companies.

In order to provide that the Corporation will not be deprived of useful or necessary information by these changes, the bill contains a new subsection under which RFC is granted access to reports, records, and other information which may be in the possession of certain agencies of the Government, and which may relate to the condition of existing borrowers or applicants for RFC loans.

In order to clarify the responsibility which the Corporation must accept when it makes a loan, the bill proposes a restatement of the grant of lending authority. It proposes that the Corporation be empowered to lend public money only where it has first been determined by the Corporation that financial assistance is not otherwise available on reasonable terms and only where it has first been determined that a substantial public interest would be served.

The requirement that financial assistance be not otherwise available is stated as a limitation on the lending authority in the present act. By its inclusion in the language which grants the authority, this bill seeks to emphasize and thus to enhance the significance of the limitation by clearly making it a condition precedent to the exercise of the authority. The limitation has been accorded inadequate recognition in the operations of the Corporation in recent periods.

The present RFC Act does not require the Corporation to determine that a substantial public interest would be served by the making of any individual loan. During the hearings which were held by the subcommittee on RFC in 1950, it became apparent that no great efforts were being made by the Corporation or by its Board of Directors to ascertain that a genuine public interest was served by the loans which were made. The subcommittee was satisfied that important loans had been made in complete disregard of the public interest.

It is for these reasons that the bill proposes to require a specific determination by the Corporation that each loan made will serve a substantial public interest. Separately, the bill requires that the basis for such a determination be reduced to writing so that the records of the Corporation will contain a clear exposition of the reasoning which prompted the making of the loan. Such a record is necessary if the committees of the Congress are to have a satisfactory accounting from the RFC in reports issued or in hearings held weeks after the loans are made. It should prove useful also in the annual audits made for the Congress by the Comptroller General of the United States.

### CLARIFICATION OF THE ADMINISTRATOR'S RESPONSIBILITIES

In order to clarify the responsibility of the Corporation's Administrator, the bill proposes to require that the Administrator shall approve all loans in excess of $100,000. It proposes to require further that in those instances in which the Administrator either grants a loan or denies it, against the recommendation of the Corporation's Board of Review, he must record in writing his reasons for doing so.

The Subcommittee on RFC has learned that many of the loans made by the RFC in the past 2 years have been made by the Board over the strong objection of its advisers and without the creation of any record of the reasons why the advisers were overruled. The testimony given by Board members in later justification of such acts has been unconvincing in every important instance. The requirement now proposed should bring about a considerable improvement at the highest level in accounting for the business decisions of RFC.

### STATUTORY STANDING FOR THE REVIEW COMMITTEE

The performance of the present review committee associated with the RFC office in Washington has been most encouraging to the Subcommittee on RFC. This review committee has been composed of five of the most seasoned loan examiners of the RFC. They have shown integrity and independence to an exceedingly high degree and they have shown it consistently under circumstances which must to them have been most discouraging.

The review committee was created by the RFC many years ago. In recognition of its value, and to make certain that its independence shall not be impaired by the events of any future period, the bill proposes that the continued existence of the review committee be required by statute.

### MAXIMUM MATURITY FOR BUSINESS LOANS

Another provision which will clarify the scope of the Corporation's lending authority is one which refers to the maximum maturity for the repayment of RFC loans. Under the existing law, the Corporation may make business loans for a period of 10 years and no longer. The clear intent of this provision was that the Government wished not to place the resources of the public at the disposal of private individuals or private enterprises for more than 10 years in any one instance. But the law has not been interpreted in this way.

The $15 million loan to Texmass Petroleum Co. was earmarked to the extent of about 81 percent for the repayment of existing debt. It was a bail-out, and except for the fact that it eased the debt-repayment terms which then existed, it added little to the borrower's earning power or repayment ability. In the opinion of expert geologists, the circumstances in which the borrower found himself were such as to preclude repayment of the loan in the 10-year period provided by the resolution of the RFC Board of Directors.

Counsel for RFC advised the subcommittee that under the law it was not necessary for the Corporation to determine how the loan would be repaid. Repayment by liquidation of the borrower's enterprise at the end of the 10-year period, in the opinion of the counsel,

would meet the requirements of the present RFC Act. The requirements would be met also if the repayment were made from the proceeds of a new loan negotiated at the end of 10 years even if the new loan should be an RFC loan.

This bill proposes that loans shall not be made unless there is reasonable cause to believe that they can be paid with interest within 10 years, either from the borrower's earnings or through other means, excluding liquidation, contemplated at the time the RFC loan was approved. This provision imposes no hardship. It would merely require that the plans of financing in which the Corporation engages be complete and orderly plans, and not haphazard plans based on the hope that unforeseen circumstances will ward off future problems. This should strengthen congressional control over RFC.

### PUBLIC DOCKET OF LOAN APPLICATIONS

Another provision of this bill which will strengthen the control over RFC is the provision that there be a public docket of loan applications. This docket will be available for public inspection during the Corporation's regular business hours, both in Washington and in other cities in which the Corporation maintains offices. Without delay, upon receipt of applications, the Corporation would be required to post in this docket:

1. The name of the applicant, and, in the case of corporations, the names of officers and directors.
2. The amount and duration of the loan applied for.
3. The purpose for which the money is to be used.
4. A description of the security offered.
5. The names of all persons who shall represent the applicant, or who shall intercede for him, or who shall attempt to influence the RFC in any manner in the exercise of its judgment in connection with the application.

In 1949 RFC lent $44 million to Kaiser-Frazer Corp. after protracted secret negotiations. The secrecy of the negotiations did not distinguish the loan from many others, and it was felt by both the RFC and the applicant that it was necessary to protect the interests of employees, investors, suppliers, and distributors who were wholly or partially dependent on the applicant's business. However, the Kaiser-Frazer loans present a good example of an important undesirable effect of secret negotiations. After the loan had been made there was considerable controversy about it, and the public interest which it served was seriously questioned. It would have been helpful to the RFC Directors if all of the arguments pro and con had been at its disposal when the loan was under consideration. Early in December 1950, an additional $25 million loan was made to Kaiser-Frazer Corp. The negotiations for this additional loan also were conducted in secret until the point had been reached at which public discussion could add little value to the negotiations. One of the principal arguments for the new $25,000,000 loan was the contention that it improved the quality of the existing $44,000,000 loans, a process which could go on indefinitely.

The provision regarding the publication of names of intermediaries is aimed at discouraging the making of loans which later meet with extensive public disapproval. It is also aimed at discouraging the

growth of undue influence in the hands of favored parties. The application of this provision should strengthen the hand of the Administrator of RFC and make it possible for him better to maintain the Corporation's integrity and independence.

### CONTROL OVER EMPLOYMENT OF APPLICANTS' INTERMEDIARIES

Another provision which seeks to discourage the growth of undue influence in the hands of favored parties is contained in section 4 (c) of S. 515. This section was substituted in part on the recommendation of the Attorney General of the United States and in part on the recommendation of the new RFC Administrator, in place of the fee prohibition contained in the present RFC Act and in the original draft of S. 515. With respect to his proposal, the Attorney General said:

> Rather than require the law enforcement officers and the courts to attempt to draw the rather nebulous line between legitimate and illegitimate fees, and between proper and improper influence, I favor an amendment of the RFC Act which would place upon applicants and persons receiving fees and commissions from applicants, the responsibility of making full disclosure of the payment and receipt of such fees and commissions without regard to their amount and without regard to the nature of the services for which they are made. Such a provision could more easily be enforced and would involve no speculation as to its violation. The issue in any prosecution would require the determination of a simple question: "Was the information filed?"

So long as it is customary for business enterprises to employ attorneys, accountants, and other consultants on a professional basis, it will be impossible to make satisfactory distinctions, by law, between fees paid for necessary professional services and fees paid for special influence or in the hope that their payment will procure special influence. The proposed revision places the burden of disclosure on the loan applicant and it provides for penalties in the event that the required disclosures are not made. Secret arrangements with intermediaries are prohibited.

The burden of determining what arrangements are proper and what arrangements are not, continues to rest, as it must, on the Administrator of the RFC. In order to assure that he will not approve the granting of loans until he is satisfied of the propriety of all arrangements involving intermediaries, S. 515 provides that the Administrator must pass on the reasonableness of fees paid by the loan applicants. This provision was suggested by the new RFC Administrator. It is strengthened by the companion requirement that the Administrator's determination concerning fees shall be accepted by the applicant as a condition precedent to the making of the loan.

### EMPLOYMENT PROHIBITIONS

The bill contains a new section which will prohibit the employment of RFC people by borrowers within 2 years after the borrowers have obtained financial assistance from the RFC. There have been a number of instances recently in which RFC officials have accepted employment on very attractive terms with borrowers who might not have been able to obtain their loans had it not been for the efforts of these people. There were instances also in earlier years.

Mr. John Hagerty took a $30,000-a-year job as agent for the trustees of Waltham Watch Co. less than a week after the final nego-

tiation of the conditions on which the RFC loan to Waltham was made. Mr. Allen Freeze recently took a $22,500-a-year job as vice president of Texmass Petroleum Co. This was done as soon as possible after completion of the negotiations of the RFC loans to Texmass. In Mr. Freeze's case employment was delayed considerably by the reluctance of the Directors to give it their approval. Although Mr. Freeze was employed in the Office of the RFC Controller and therefore had no official part in the lending activity, he was nevertheless very active in connection with the loan application and, particularly, with the preparation of material offered by RFC in justification of its decision to make the loan. It has recently been reported that Mr. Freeze had worked for Texmass during vacation periods while he was still an RFC employee, and before the Texmass loan was made, and still more recently it was reported that he resigned from his position with the company.

A bill to enact the prohibitions proposed in this bill was submitted to the Senate as S. 1871 on July 11, 1949. It was adopted by the Senate but failed to receive the approval of the House of Representatives.

### REVISION OF FINANCIAL STRUCTURE

This bill proposes a substantial revision in the financial structure of RFC. At the present time RFC has an interest-free capital fund of $100,000,000 provided by the Treasury. It also has the use of $250,000,000 of accumulated net income, free of interest, and it has the authority to borrow, at interest, whatever other moneys are required. It has always had borrowing authority. In response to a recommendation made repeatedly by the Comptroller General of the United States, and in response to the same recommendation made by the Hoover Commission Task Force on Federal Lending, this bill proposes to eliminate the interest-free capital fund and the interest-free use of the accumulated earnings. Also it proposes to terminate the borrowing authority. The Corporation would be financed instead by a revolving fund placed at its disposal by appropriations. This fund would be held by the Treasury and moneys would be advanced to the Corporation from it as requested.

This revision of the financial structure of RFC would have relatively little effect on the lending activities as they are constituted at present. However, it would have a very far-reaching effect on the financial flexibility of the Corporation when regarded from the standpoint of expanded or more diversified lending and from the standpoint of the extraordinary types of assignments which RFC has been asked to undertake in the past. The proposed financial structure is rigid in the sense that it is geared to present lending programs. Substantial increases in activity or the assignment of special governmental functions would require not only the approval of the Congress in substantive legislation, but also the appropriation of specific funds for their financing, or specific provision for their financing by other means. Operating net losses in the lending activities and unforeseen operating deficits in the tin, the synthetic rubber, and the fiber production programs now conducted by RFC would also require appropriations for they would otherwise eat into the revolving fund established by this bill.

Heretofore the RFC has had authority to use public funds borrowed from the Treasury, and the scope of the authority has been revised from time to time in substantive legislation. Appropriations have not been necessary.

Under this bill the Corporation would repay its present capital and borrowings as soon as the revolving fund would become available. In recognition of the costs incurred by the Treasury in making its operating funds available, the Corporation would make annual payments determined by applying an interest rate to the average monthly balance advanced to the Corporation.

The bill does not refer to these annual payments as interest payments but rather it considers them simply as payments made in recognition of the Government's costs. Under this provision the operations of RFC would receive a full charge for all costs incurred by the Government in borrowing the money for RFC's use.

In response to another recommendation made by the Comptroller General of the United States the bill contains a provision which would require RFC to pay the costs incurred by the Government in providing civil-service-retirement fund benefits for RFC employees. There is no such requirement in the present law.

Discretion over interest rates on RFC loans is vested in the Administrator by the provisions of this bill. It has been vested in the Board of Directors. To assist the Administrator in determining the rates of interest which should be charged on RFC loans, there has been included in this bill a provision which lays down the general policy that interest rates on RFC loans should be sufficient to provide revenue which will cover the cost of money, the expenses of administration, and a risk factor which over all will provide for losses that may materialize on loans. It is recognized that there are other revenues, sometimes substantial in amount, which come to the RFC from miscellaneous sources. However, these cannot be foreseen readily and they cannot be controlled in the sense that interest can be controlled, and it is for this reason that they are not mentioned in the bill. The essence of this policy provision is that revenues, to the extent that it can be brought about, should be sufficient in any fiscal year to cover the costs and losses pertinent to the operations of that year.

The Banking and Currency Committee on previous occasions has considered including in the RFC Act a policy statement which, like this one, would indicate that the Corporation should operate on a self-sustaining basis. Its operations have not been self-sustaining in recent periods.

Taking all costs into account, RFC lending operations resulted in a net loss of about $6,500,000 in the year ended June 30, 1949. Substantially the same situation would have existed for the year ended June 30, 1950, if it had not been for an extraordinary item of revenue, nonrecurring in nature, which was realized in that year. During 1950, the Corporation sold at a profit certain properties which had come into its possession years before by foreclosure on defaulted loans. The financial statements of RFC for these two most recent completed fiscal years do not report net losses. They report profits instead, because it has not been required under the RFC Act that all costs be taken into account.

During the closing months of 1950, the then Board of Directors of RFC raised the Corporation's interest rate on loans from 4 percent per annum to 5 percent per annum, and it inaugurated certain other changes designed to increase the Corporation's revenues and reduce its costs. These changes were the outgrowth of discussions held during the subcommittee's special study under Senate Resolution 219, and they undoubtedly were made in anticipation of the proposal that RFC be required to sustain itself without benefit of the subsidy provided by the use of interest-free capital, and by other cost exemptions.

No one knows if the Corporation's lending activities will be made financially self-supporting by the changes introduced toward the close of 1950 or by changes introduced since. Under the financial structure proposed in S. 515, if the activities are not financially self-supporting, the operating deficits will eat into the revolving fund and the scope of future lending will diminish. The scope of future lending will diminish, that is, unless the deficits are made good by further appropriations.

While RFC was charging interest at the rate of 4 percent per annum, its costs (taking all costs into account) exceeded its revenues on all business loans under $50,000 each, taken as a class. Costs exceeded revenues on all business loans between $50,000 and $75,000 each where the term of the loans was for less than 6 years. Where the term was for 2 years or less, costs exceeded revenues on all business loans between $75,000 and $100,000 each, and where the term was for less than 1 year the Corporation could not break even on loans of $150,000 or less. The excess of revenues from the larger loans was relied upon to cover the losses on the smaller loans.

The subcommittee has felt that RFC operating results should be reported on a basis which takes all costs into account, and that they should be reported by classes of loans, including some reasonable classification according to the size of the individual loans. It has felt also that if the lending activity requires a subsidy, over all, the Congress should be given the opportunity annually to pass judgment on its cost. Under the provisions of S. 515, with reasonable financial reporting by the RFC, the over-all subsidy and the interclass subsidies will be reported completely and frankly and thereby be brought under congressional control.

### LOANS TRANSFERRED TO OTHER AGENCIES

Certain loans and mortgages now held by RFC would be transferred to other agencies of the Government under the provisions of section 10 of this bill. A loan of $60 million to the Republic of the Philippines would be transferred to the Export-Import Bank of Washington because the Export-Import Bank has excellent facilities for servicing this loan and because the loan is a freak in the portfolio at RFC. The remainder of a loan of $5,000,000 to Steep Rock Iron Mines, Ltd., of Ontario, Canada, would also be transferred to the Export-Import Bank. This transfer is proposed because the Bank already has a loan to this corporation and it seems desirable that the RFC loan be combined with it so that the entire arrangement may be administered as a unit. The Export-Import Bank is better qualified than the RFC for administration of a loan to a foreign borrower.

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The provisions of section 10 (6) would transfer certain mortgages to the Housing and Home Finance Agency. These mortgages are similar in every respect to the mortgages which were transferred to the Housing and Home Finance Agency in September 1950, under the provisions of Reorganization Plan No. 23 of 1950. The effect of this provision would be to eliminate a duplication of activity as between the RFC and the Housing and Home Finance Agency.

### OTHER CHANGES

The bill proposes very little change in sections 9, 10, 12, and 13 of the RFC Act as amended and these sections now appear in the proposed bill as sections 11 through 14, respectively.

Section 11 of the RFC Act as amended, which contained the penal sanctions applicable to the violation of the criminal provisions of the act, has been deleted, since the 1948 revision of the Criminal Code extends the general Federal criminal statutes to offenses against and involving the RFC and its personnel. In other words, those offenses which formerly had to be dealt with by special legislation would now come under title 18 of the United States Code. The only exception is the penal provision contained in section 4 (c) of this bill.

## Explanation of Committee Amendments

The amendments to the bill made by your committee fall generally into three categories: (1) Those made necessary by other statutory changes made in legislation affecting the Reconstruction Finance Corporation since the introduction of the present bill; (2) those made as the result of suggestions made by Government agencies after the bill was introduced; and (3) technical and clarifying changes, plus some minor changes made by your committee.

This bill was introduced on January 16. Subsequent to that date, the President initiated Reorganization Plan No. 1 of 1951, which, having failed of disapproval by either House of Congress, is now in full force and effect. As it affects the present bill, the pertinent portions of the Reorganization Plan abolished the Board of Directors of the Reconstruction Finance Corporation, substituted an Administrator and a Deputy Administrator, and fixed their salaries.

The reorganization plan also made the Deputy Administrator subject to confirmation by the Senate and empowered him to perform the functions of the Administrator during the latter's absence or disability. In addition it established a Loan Policy Board composed of the Administrator, his Deputy, the Secretary of the Treasury, the Secretary of Commerce, and one other officer of the United States designated by the President from among officers who require Senate confirmation. The Loan Policy Board is to establish general policies governing the granting or denial of applications for financial assistance.

The reorganization plan created a Board of Review of not less than five persons employed by the RFC having major responsibilities who receive no extra compensation for service on that Board.

Accordingly it became necessary to make reference to the reorganization plan in section 1 of the bill; substitute the title "Administrator" for "Governor" throughout the bill; substitute a single Deputy Administrator with a salary at the rate of $16,000 per annum in lieu

of two Deputy Governors with salaries at the rate of $15,000 per annum for each, these changes appearing in sections 2, 4 (b) (6), and 4 (b) (8) of the act as proposed to be amended by this bill (hereinafter referred to simply as "the act"); section 2 of the bill which would have terminated the Board of Directors, since the reorganization plan had already accomplished this abolition.

In the second category are found changes suggested by the Reconstruction Finance Corporation, the General Accounting Office, and the Department of Justice. By the amendment made in section 3 (a) of the act the debt priority enjoyed by the RFC was extended at its request to include transactions pursuant to the Defense Production Act of 1950, as amended.

In order to preserve the provisions of the present RFC Act concerning over-all limits on its respective lending programs, committee amendments were made in section 4 (b) (4) of the act.

The Deputy Administrator is subjected to the same restriction as the Administrator relative to nonemployment by an RFC borrower for 2 years after the loan is made, by the amendment in section 4 (b) (7) of the act. A similar change in section 4 (d) of the Act would prohibit the Deputy Administrator from participating in Corporation activities affecting his personal interests. Also at the suggestion of the RFC, the provisions of the bill are made applicable to Guam by the amendment appearing in section 4 (i) of the act.

At the suggestion of both the RFC and the General Accounting Office, the provisions appearing section 10 (b) of the act were deleted in order to retain administration by the RFC of its loan to the United Kingdom of Great Britain and Northern Ireland. Since it appears the loan will soon be repaid, your committee decided it would not be economical to transfer the loan from the RFC. As an accompanying technical change, section 10 (c) of the act was relettered 10 (b).

In addition to the foregoing, several other changes were made at the instance of the Comptroller General of the United States or other representatives of the General Accounting Office. In order that a strict construction might not place an undue burden on the RFC, the words "cost accounting" have been deleted from the phrase "adequate cost-accounting records," in the provision in section 1 (b) of the act requiring the Corporation to keep records from which to develop data needed to report the results of its lending activities by major classes of loans.

At the suggestion of the Comptroller General the prohibition against borrowers hiring employees of the RFC within a specified period of time has been extended to public-agency loans. He notes that many such agencies which borrow from the RFC have very lucrative positions at their disposal, citing the Port of New York Authority as an example. To accomplish this change, in section 4 (b) (7) of the act, "paragraphs (1), (2), or (3)" were substituted for "paragraphs (1) or (2)"; paragraph (3) of section 4 (a) of the RFC Act, as amended, being the one which authorizes the RFC to lend money to public agencies.

The bill presently permits employees of the RFC to be simultaneously employed by an RFC borrower at the request of the Administrator of the RFC in order to watch out for the interests of the RFC. In that event the employee can receive no compensation from the borrower and only a regular salary from the RFC. In order to clarify

the intended meaning of the provision, it was expressly amended section 4 (b) (7) (B) of the act to provide that such salary shall not be considered in computing any limitation on administrative expenses of the RFC. This change was made at the suggestion of the Comptroller General.

In order to conform to another request made by the Comptroller General, the method of financing the RFC was revised. As the bill was introduced, the RFC was required to retire its capital stock held by the Treasury, redeem its outstanding notes also held by the Treasury, and pay to the Treasury its accumulated earnings. Thereafter it was to operate out of a $1,300,000,000 revolving fund to be obtained from the Treasury pursuant to appropriations and income earned by the Corporation after the enactment of the bill into law.

The amendments in section 7 (a) and 7 (b) of the act allow the RFC to retain $20,000,000 and the accumulated earnings it holds during the first fiscal year when its authorization to obtain $1,300,000,000 from the Treasury becomes effective. Thereafter accumulated earnings exceeding $20,000,000 are to be paid to the Treasury within 90 days after the close of each fiscal year. The Comptroller General notes that $20,000,000 equals about 1 year's administrative expenses for the lending program of the RFC. He points out that the change will follow a recommendation made in his audit report for the fiscal year 1950 that the net income retained by the Corporation be fixed at $20,000,000. Except for this amount, the RFC under the amendment would be required to pay to the Treasury on the funds used in its lending program the cost to the Government of borrowing money for the use of the RFC and also the cost of retirement and compensation benefits incurred by the Government on behalf of employees of the RFC. Since under this arrangement the Treasury funds will be "advanced" to the RFC rather than "invested in" it, an appropriate change was made in section 4 (c) of the act to say so expressly.

Also at the suggestion of the General Accounting Office, an amendment was made in section 10 (a) of the act to provide that the Export-Import Bank shall reimburse the RFC for the "net book" balances of the loans to the Republic of the Philippines and the Steep Rock Iron Mines, Ltd., being transferred from the RFC to the Export-Import Bank, instead of the "unpaid" balances of the loans "plus accrued interest." The same amendment was made in section 10 (b) of the act with reference to reimbursement to the RFC through cancellation of notes held by the Secretary of the Treasury for RFC Mortgage Company mortgages to be transferred to the Housing and Home Finance Administrator under the provisions of the bill.

The Attorney General of the United States and the RFC also had some suggested changes in the bill as introduced which were incorporated as amendments. In the bill as introduced, section 4 (c) of the act repeated an existing provision in the RFC Act, as amended, making it unlawful for an applicant to pay any fee or commission for financial assistance under the act in connection with any application. This provision was intended to give the RFC control over the payment of fees by applicants in order to discourage fees beyond a fair amount for services actually rendered. The Attorney General favored an amendment in the nature of a substitute, which, as modified by the RFC, appears in section 4 (c) of the act. The amendment would make it unlawful to pay or receive any fee, commission, or other

compensation in connection with an RFC loan application in excess of reasonable compensation for proper services as determined by the RFC. As one of the conditions of the loan, the borrower must agree to accept the determination of the RFC on this point. Amounts allowed are made public. Anyone paying or receiving any compensation in connection with an RFC loan application without reporting that fact in the application or who thereafter pays or receives compensation without the approval of the RFC is subject to penal sanctions. A penalty of not more than $10,000 fine nor more than 5 years' imprisonment or both is provided for violation of this provision as amended. The Attorney General believes such a provision could be easily enforced since in any prosecution it would be necessary only to prove that the required information had not been filed. Under the amendment the RFC would still be authorized to decide whether the payment was for a proper or improper purpose.

In view of information received from the Attorney General, section 13 of the act was deleted. This section contained the penal sanctions against violation of the provisions of the bill. However, with a single exception, these sanctions are contained in the 1948 revision of the Criminal Code of the United States and would only be redundant if included in the bill. The single exception is the penalty now appearing in section 4 (c) of the act for violation of the provision dealing with the payment of fees and commissions by applicants. As pointed out by the Attorney General, this provision was inadvertently omitted from the 1948 revision of the Criminal Code, which nevertheless repealed the similar provision then appearing in the RFC Act, as amended. In view of the deletion of section 13, sections 14 and 15 were renumbered sections 13 and 14, respectively.

Among the minor changes made by your committee were the following:

The general powers of the RFC were rephrased in section 1 (a) of the act so as to be "authorized" for execution in the manner provided in the bill rather than to be "the duty of" the Corporation. Your committee wanted to be certain that the bill would not be construed as enlarging the purpose of the RFC as set forth in the existing RFC Act.

In order to make it clear that the statement of income and expenses by the RFC mentioned in section 1 (b) of the act refers only to lending operations, the word "lending" was inserted before the word "operations." This is one of the statements to be included in the annual report of the RFC to Congress.

In section 3 of the act your committee inserted a provision to require bonds from such of its officers, employees, attorneys, and agents as the Corporation may designate and to provide for payment of the premiums for such bonds by the RFC. The attention of your committee was invited to similar provisions governing the Commodity Credit Corporation, the Panama Railroad, and the Virgin Islands Corporation.

In order that any construction loan (not only those for constructing industrial facilities) might have a maximum maturity of 10 years plus the additional period needed to complete construction of the project for which the loan is made, your committee substituted the words "construction purposes" for the words "the purpose of constructing industrial facilities" in section 4 (b) (2) of the act.

Annual billings for benefit payments made from the Employees' Compensation Fund on account of employees of the RFC are now prepared by the Secretary of Labor instead of the Federal Security Administrator. An appropriate amendment is made in section 8 of the act.

In connection with the proposed transfer to the Export-Import Bank of two loans made to borrowers outside the United States your committee decided to include "collateral" files in the loan files ordered transmitted to the Export-Import Bank. This change appears in section 10 (a) of the act.

The correct corporate name is given to the "RFC Mortgage Company" by the amendment in section 10 (b) of the act instead of referring to it as the Reconstruction Finance Corporation Mortgage Company.

Other changes were made in the bill in order to correct typographical errors.

## Conclusion

For all the foregoing reasons, your committee is of the opinion that this bill should be brought to the Senate Calendar. Under the peculiar parliamentary situation prevailing in your committee at the time of passage of the motion to report this bill to the Senate without recommendation, it became advisable for those who favor its passage to vote against the pending motion to report the bill without recommendation. In this case the vote of those opposing its being reported without recommendation is not to be construed as a vote in opposition to the bill itself. Conversely, the vote of those who approved reporting the bill without recommendation is not necessarily to be construed as a vote in opposition to the bill. Under the action taken by your committee, the bill is presented to the Senate for final action by this honorable body.

## Section-by-Section Analysis of the Committee Amendments

*Section 1 (a)*

This section adds to section 1 (a) of the RFC Act, as amended, the aims and purposes of the Corporation and expands the aims and purposes to anticipate the inclusion of certain phases of our national defense and foreign-policy program. In the present act, the aims and purposes are set forth under section 4. It seems desirable to show these amendments and purposes as applicable to the entire act, rather than to a given section only. The phrase "with a capital stock of $100,000,000 secured by the United States of America" has been eliminated from section 1 (a) of the RFC Act, as amended, for reasons discussed under section 7 (a).

With reference to the function of RFC "to assist in promoting maximum employment," it is felt that this factor should not be given primary consideration in determining whether a loan should be made except when unemployment is a serious and present problem.

*Section 1 (b)*

This section requires the Corporation to maintain cost records by major classes of loans and to report to the Congress upon the results of operations by such classes. It also modifies section 1 (b) of the RFC Act, as amended, by requiring that loans to any one borrower amount-

ing to $100,000 or more shall be set forth in the schedules to be included in the report filed with the Congress at the end of each fiscal year. The present section requires only that individual loans of $100,000 or more be included in the schedules.

The last sentence of section 1 (b) has been deleted because section 7 (b) eliminates capital stock as such from the Corporation's financial structure.

*Section 1 (c)*

Section 1 (c) of the RFC Act, as amended, has been eliminated since the action required thereby has been completed.

*Section 2*

Since the introduction of S. 515, organization of the Reconstruction Finance Corporation as provided for in the RFC Act, as amended, has been altered by the adoption of Reorganization Plan No. 1 of 1951. S. 515 originally proposed that the five-man Board of Directors of the RFC be replaced by one person to be known as a Governor. It was felt that this would centralize the responsibility for the conduct of the Corporation's business and thus produce better administration. The reorganization plan followed this idea, substituting an Administrator for the Board of Directors. It also provided for the appointment of a Deputy Administrator. This section of S. 515 was thereupon rewritten to conform with the provisions of the reorganization plan.

This section also provides for a salary of $17,500 per annum for the Administrator and $16,000 per annum for the Deputy Administrator. It fixes their term of office at 3 years and authorizes their reappointment.

*Section 3 (a)*

This section modifies section 3 (a) of the RFC Act, as amended, in the following manner:

1. In the second sentence of the present act, the following words appear:

laws applicable to the Corporation as in effect on June 30, 1947, and as thereafter amended.

These words have been deleted and the following substituted in their place:

applicable provisions of the Classification Act of 1949 and any other laws applicable to the Corporation, and to require bonds from such of these as the Corporation may designate, the premiums therefor to be paid by the Corporation.

This change amends section 3 (a) to conform with the provisions of Public Law 429, approved October 28, 1949, which provides that all officers and employees of corporations wholly owned by the United States are subject to position, classification, rates of basic compensation, and general rules and regulations of the Civil Service Commission. The provision for the bonding of certain officers and employees of the Corporation follows the wording in the Virgin Island charter and in the charters for the Commodity Credit Corporation and the Panama Railroad.

2. Section 3 (a) of the RFC Act, as amended, in referring to the Corporation's exemption and immunities from costs, charges, and fees, refers to sections 543, 548, 555, 557, 576 and 578a, of title 28, United States Code, under the 1948 revision of the Judicial Code.

These section designations were changed, and the provisions so modified by the 1948 revision of the code, that now only one section, 2412, is applicable. This deletion and substitution has been made.

3. This section also extends the debt priority of RFC to include transactions pursuant to the Defense Production Act of 1950, as amended.

*Section 4 (a)*

The purposes of the Corporation as enumerated under section 4 (a) of the RFC Act, as amended, have been deleted. Under S. 515, these have been included in the preamble to indicate their general applicability, and section 4 (a) becomes simply the grant of lending authority. The provisions of this section constitute a modification of the provisions of section 4 (b) (1) of the existing RFC Act which provides, among other things, that—

> no financial assistance shall be extended pursuant to paragraphs 1, 2, and 3 of subsection (a) of this section unless the financial assistance applied for is not otherwise available on reasonable terms.

The subcommittee's review of a large number of loans made by the RFC indicates a laxity on the part of the Corporation is complying with this provision. It is believed that the inclusion of the availability-of-credit provision at the beginning of section 4 (a) as a condition precedent to the exercise of the lending authority will add emphasis to that requirement, and improve the Corporation's response to it.

The existing RFC Act contains no express reference to the "public interest" in RFC loans. However, the 1948 report of the RFC Subcommittee concluded that in deciding whether to make or decline a loan, the interest of the general public should be regarded as a primary consideration and the interest of the borrower should be regarded as a secondary consideration. In hearings before the present Subcommittee on RFC, and in its studies of RFC loans, it has been found that many loans were made by the Corporation where the interest of the general public was extremely remote. The proposed change requires the Administrator of the Corporation to determine that a substantial public interest would be served before he may exercise the Corporation's authority in approving any particular loan.

It is not intended that section 4 (a) should be construed as requiring the Administrator to pass judgment on every loan made by the Corporation. Such authority may be delegated to the extent required for proper administration. (See secs. 4 (b) (6) and 4 (b) (9).)

*Section 4 (a) (1)*

This section eliminates the requirement that RFC make loans to air carriers and railroads only with the approval, respectively, of the Civil Aeronautics Board or the Interstate Commerce Commission. The subcommittee believes that the full responsibility for all loans made by RFC should be borne by the Administrator and that no other Government agency should be charged with any part of this responsibility. Furthermore, the Civil Aeronautics Board has the responsibility of establishing mail subsidy payments to airlines, and the elimination of the legislative provision that CAB approve loans made by RFC will preclude the possibility of the CAB's feeling compelled to establish mail subsidy payments sufficiently high to repay the RFC loans. Under section 4 (g) of the proposed RFC Act, the

Treasury Department, the Comptroller of the Currency, the Federal Reserve Board, the Federal Reserve banks, the Securities and Exchange Commission, the Interstate Commerce Commission, and the Civil Aeronautics Board are authorized to make available to RFC any information which those agencies may have concerning applicants for RFC loans. This will afford RFC an opportunity to receive information and assistance from these agencies without being subject to any of their regulatory powers.

*Section 4 (a) (2)*

This section eliminates the requirement under section 4 (a) (2) of the RFC Act, as amended, that the Secretary of the Treasury certify that an insurance company is in need of funds for capital purposes before RFC can grant a loan. This revision is consistent with the revision of section 4 (a) (1), wherein the Civil Aeronautics Board and the Interstate Commerce Commission were removed from RFC's loan-making affairs. It is believed that the RFC Administrator should have the sole authority for making or rejecting any loan except as provided in section 4 (b) (6) and (9) herein and should bear the full responsibility.

*Section 4 (a) (3)*

This section is the same as section 4 (a) (3) of the RFC Act, as amended.

*Section 4 (a) (4)*

The RFC Act, as amended, excludes from the availability-of-credit provision loans made because of floods or other catastrophes. It is believed that such exclusion should be continued. The proviso in this section has been added because of the shifting of the availability-of-credit provision from section 4 (b) (1) of the RFC Act, as amended, to section 4 (a). It is felt that this is desirable because of the emergency nature of such loans.

*Section 4 (b) (1)*

The first sentence of paragraph 4 (b) (1) of the RFC Act, as amended, has been eliminated from this section. The provisions of that sentence have been included at the beginning of section 4 (a) and section 4 (a) (4) for the reasons shown under those sections.

*Section 4 (b) (2)*

This section is the same as section 4 (b) (2) of the RFC Act, as amended, except that the maximum maturity of 10 years plus construction time is made applicable to loans for all construction purposes instead of being limited to loans for construction of industrial facilities, as it is in the present RFC Act, as amended.

*Section 4 (b) (3)*

This section is the same as section 4 (b) (3) of the RFC Act, as amended.

*Section 4 (b) (4)*

The provisions of this section are substantially the same as those of section 4 (c) of the RFC Act, as amended. The limitation on the total amount of investments, loans, purchases, and commitments has been eliminated and in lieu thereof a limitation has been placed on

the amount of funds which the Corporation may obtain from the Treasury. (See reasons for the change under proposed sec. 7 (a).) No change has been made in the specific limitations imposed by section 4 (c). The change in the wording of the sentence imposing a $15,000,000 limitation on a certain class of aid to insurance companies is necessary because of the change of section 4 (a) (2).

*Section 4 (b) (5)*

The study of RFC has indicated that the Corporation has been primarily interested in determining that the collateral behind a loan will liquidate in an amount sufficient to repay the loan in the event the borrower defaults. The ability of the borrower to repay the loan from earnings has been given only secondary consideration. The result has been that in many cases RFC loans have been detrimental to the borrower other than beneficial; the borrower's reasonably foreseeable earnings have not been sufficient to meet the stipulated payments on the loan in many cases and the borrower has thereby been exposed to the hazard of default, foreclosure by RFC, and loss of the enterprise. This new subsection prohibits the making of a loan to any business enterprise unless there is reasonable assurance that the borrower will be able to repay the loan from earnings, from planned refinancing, or otherwise without being forced to liquidate the business.

*Section 4 (b) (6)*

Under the RFC Act, as amended, two members of the Board of Directors, acting as a majority of the corporation's executive committee, could, and frequently did, authorize the making of loans to borrowers. The action of the two members was as legally binding as the action of the full five-member Board. Furthermore, the Board (with as little as two members acting) often approved loans over the objections of the subordinate advisory levels within RFC. The loan to the Texmass Petroleum Co. is a good example of both points. It has been found that the Corporation's problem loans usually were those which had been recommended for decline by the review committee in the Washington office of RFC but which were nevertheless approved by the Board. Under these circumstances it was difficult to place responsibility for the approval of the problem loans, and in testimony before the subcommittee, the RFC Directors were not able to supply convincing reasons for overriding the review committee on loans which the review committee had recommended be declined. This new subsection has been designed to preclude the recurrence of such situations by requiring the Administrator to approve the granting of all loans totaling more than $100,000 to any one borrower and when his action in such cases conflicts with the recommendation of the Review Board he is required to state in writing the reasons for his decision.

*Section 4 (b) (7)*

Several instances have been brought to the attention of the subcommittee where employees of RFC who exercised discretion with respect to making loans have later been employed by borrowers of RFC. Whether or not the prospect of such employment influenced their judgment in the making of the loans, the circumstances seemed to indicate that there might have been important conflicts of interest

detrimental to the best interest of the general public. This subsection is designed to prevent an RFC employee from accepting a position with a borrower for a reasonable time after a loan has been made. It is intended by this change to eliminate the conflict of interests or at least to make a considerable reduction of it.

*Section 4 (b) (8)*

This section is new. It has been added to give statutory authority for the Board of Review which is in existence at the present time.

*Section 4 (b) (9)*

This new section requires that the basis for the determination of substantial public interest in approved RFC loans be reduced to writing and made a part of the files in every case. It also permits the Administrator to delegate the duty of determining that there is a substantial public interest, in cases where the applications for loans from any borrower total less than $100,000.

*Section 4 (c)*

This section is a revision of section 4 (d) of the RFC Act, as amended. This change was suggested in part by the Attorney General and in part by the present Administrator of RFC. It is designed to curb the development of influence seeking and influence peddling, and it seeks to do this by requiring disclosures where loan applicants employ intermediaries to represent them. It also requires RFC to determine the reasonableness of compensation paid to intermediaries and it requires the loan applicants to accept RFC's determinations in this area.

The new subsection carries with it a penal provision of $10,000 or 5 years' imprisonment, or both. This is necessary because, at the time the Criminal Code was revised in 1948, the "catch-all" provision which would penalize cases of this nature was inadvertently repealed, and there is no comparable provision today in the Criminal Code.

*Section 4 (d)*

This was section 4 (e) of the RFC Act, as amended. No material change has been made, except to include the Administrator and the Deputy Administrator within the scope of its prohibition.

*Section 4 (e)*

This was section 4 (f) of the RFC Act, as amended. No material change has been made.

*Section 4 (f)*

This is an entirely new section. Its purpose is to require the RFC to make public certain pertinent facts with respect to all loan applications.

*Section 4 (g)*

This is a new subsection, the purpose of which is to make available to RFC all the information on prospective borrowers that may be available within the Government departments and agencies. It is felt that this section is necessary since section 4 (a) (1) and (2) eliminate the necessity for certification by the Civil Aeronautics Board, the Interstate Commerce Commission, or the Secretary of the Treasury of loan applications by airlines, railroads, or insurance companies, respectively.

*Section 4 (h)*

This subsection repeals section 410 of the Civil Aeronautics Act of 1938, as amended, as it applies to RFC. Under section 410, any loan or financial assistance to any domestic air carrier by any Government agency requires the approval of CAB. CAB could prescribe the terms and conditions for such loan.

*Section 4 (i)*

There is no change in this subsection, except that it is designated as subsection (i) instead of (g) as in the present act, and Guam is included within the definition of "State."

*Section 5*

The provisions contained in this section are entirely new. It is believed that the decision as to what interest rates RFC should charge should be left to the Administrator. The 1948 RFC Subcommittee was of the same general opinion. Such rates should, however, be adequate to assure a "break-even" operation for each class of loans, insofar as this is possible. This proposal is supported in the Hoover Commission Task Force Report on Lending Agencies (p. 75), which reads in part:

> We recommend that the charters of all Government corporations engaged in the lending activity contain a clause requiring, for each class of loans, that the rates of interest charged by the agency be such as to cover costs, expenses, and risks of loss, and that collateral requirements be established on a basis consistent with this requirement.

A similar provision was included in the new charter of the Virgin Islands Corporation (Public Law 149, 81st Cong., 1st sess.). Section 2 (g) of that act contains the following provision:

> It shall be the general policy of the Corporation to establish interest rates on loans, subject to the foregoing limitations, that, in the judgment of the Board of Directors, will at least cover the interest cost of funds to the United States Treasury, other expenses of the lending activities of the Corporation, and a risk factor which, over all, should provide for losses that may materialize on loans.

Deletion of the present language in section 5 of the RFC Act, as amended, is merely a technical change, since its provisions have been incorporated elsewhere in the United States Code. (See title 12, United States Code, section 82.)

*Section 6*

This section is the same as section 6 of the RFC Act, as amended.

*Sections 7 (a), 7 (b) and 7 (c)*

Section 7 of the RFC Act, as amended, has been deleted and section 7 (a) (b) and (c) have been substituted in order to place RFC financing on a revolving-fund method dependent on appropriations made by law. The use of this method of financing has been recommended by the General Accounting Office and by the Hoover Commission Task Force on Lending Agencies. This method is now in use by several Government agencies and corporations. The General Accounting Office's Audit Report on RFC for 1946–47 (p. 9) contains the following comments:

> The United States Treasury is authorized to supply financing to the Corporation from the proceeds of public-debt transactions. The withdrawal of funds from the Treasury in this manner does not require, and may in fact be utilized to avoid, the appropriation procedures by which Congress ordinarily makes funds

available to Government agencies. We believe that in the interest of financial control by the Congress and simplification of financing methods in the Government, RFC (as well as other wholly owned Government corporations) should be financed solely from revolving funds appropriated for that purpose.

This method contemplates the elimination of capital stock as such. There appears to be no compelling reason for distinguishing the nature of financing supplied to wholly owned Government corporations as between capital stock, loans, or advances, since the financing is furnished from a single source, the United States Treasury. The issuance of capital stock is not necessary to evidence ownership, to facilitate transfer of ownership, or to limit liability of stock holder. We recommend that authorization for use of public-debt transactions be withdrawn and that all required financing be supplied the Corporation by means of interest-bearing advances from the Treasury from revolving funds appropriated for that purpose in advance of withdrawal.

The Hoover Commission Task Force Report on Lending Agencies contains the following recommendation (p. 75):

> We recommend that all of the Government's lending corporations be financed through revolving funds created by the borrowing of money placed at the disposal of the Treasury for that purpose by regular congressional appropriations. We recommend also that no distinction be made between funds placed at the disposal of the corporations as risk capital and funds placed at their disposal as borrowed capital. The distinction is peculiar to private corporations; it means nothing in the case of a Government corporation.

The revolving-fund type of financing has been adopted, pursuant to law, by certain Government agencies, of which the Virgin Islands Corporation and Veterans Canteen Service are examples. This type of financing gives the Congress an opportunity to make appropriations in the ordinary course of business and is consistent with the constitutional requirement that no moneys be drawn from the Treasury but in consequence of appropriations made by the Congress.

Section 7 (c) provides for an annual payment by RFC to the Treasury to defray the cost of supplying funds for the Corporation's activities. Though the charge is calculated by applying an interest rate to the balance of funds advanced by the Treasury, it is not designated as an interest charge for money obtained from the Treasury. An interest charge would not necessarily reflect the true cost incurred by the Treasury in obtaining the funds for the Corporation's use, and it is desired that the law clearly require RFC to absorb the full actual cost.

*Section 8*

This section is entirely new. It follows a recommendation of the General Accounting Office. In order to determine whether the Corporation's lending activities are in fact self-sustaining, it is necessary that its accounts include all costs to the Government incurred in its behalf, including its share of the cost of the civil-service retirement system. Such legislation has been passed for the Virgin Islands Corporation, the Panama Railroad Corporation, and possibly others. The General Accounting Office's Audit Report on RFC for the Fiscal Years 1946–47 includes a recommendation (p. 9) that legislation be enacted requiring the Corporation to pay—

> that part of the Government's cost of the civil service retirement and disability and the Federal employees' compensation systems applicable to its employees, as well as its proportionate share of the cost of administering these activities.

*Section 9*

This was section 8 of the RFC Act, as amended. No change has been made.

*Section 10 (a)*

This is a new section which requires RFC to transfer to the Export-Import Bank of Washington the loans to the Republic of the Philippines and the loan to the Steep-Rock Iron Mines, Ltd. of Canada. The RFC is a lending agency primarily concerned with loans to domestic commercial enterprises. It has no authority under its present act to make loans to foreign governments, whereas the Export-Import Bank of Washington deals only in foreign loans. It appears desirable to transfer these loans to an agency whose facilities and personnel are engaged primarily in the administration of loans to foreign governments. The General Accounting Office has recommended (p. 10, H. Doc. 468, 81st Cong.) that the Philippine loan be transferred to Export-Import Bank of Washington. At the present time RFC and the Export-Import Bank each have an outstanding loan to Steep-Rock Iron Mines, Ltd., of Canada. There seems to be no good reason for such duplication of activity.

*Section 10 (b)*

Pursuant to Reorganization Plan No. 22, Federal National Mortgage Association was transferred to the Housing and Home Finance Administrator. The major portion of FNMA's portfolio consisted of mortgages on private dwellings. The mortgages presently held by RFC and which originated under the RFC Mortgage Company are the same type of mortgages as those held by FNMA. This new section directs the transfer of such mortgages to the Housing and Home Finance Administrator for servicing along with mortgages held by FNMA.

*Section 11*

This section was designated as section 9 in the RFC Act, as amended. Under section 7 (b) the Corporation is directed to retire all its capital stock; therefore, the words "and its capital stock shall be canceled and retired" have been deleted because they are now inapplicable. The first sentence has also been changed in order to eliminate any ambiguity between this section and section 4 (e) with reference to the termination date of the powers granted to the Corporation under section 4. Under the terms of this bill liquidation of the Corporation should commence on July 1, 1954.

*Section 12*

This section is the same in purpose as section 10 in the RFC Act, as amended. The words "retire any capital stock then outstanding" in the RFC Act, as amended, have been deleted, these words being inapplicable.

*Section 13*

This section appears as section 12 in the RFC Act, as amended. No change has been made.

*Section 14*

This is the same separability clause as section 13 of the RFC Act, as amended.

*Section 2*

This makes provision for the effective date of the act to be 60 days following enactment.

NOTE.—The provisions contained in section 11 of the RFC Act, as amended, have not been included herein. This deletion has been made because the 1948 revision of the Criminal Code extends the general Federal criminal statutes to offenses against and involving the RFC and its personnel. Those offenses which formerly had to be dealt with by special legislation now come under title 18 of the United States Code. The only exception to the foregoing is the penal provision contained in section 4 (c) hereof, the need for which is explained under that section.

## CHANGES IN EXISTING LAW IN COMPLIANCE WITH THE CORDON RULE

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman).

### RECONSTRUCTION FINANCE CORPORATION ACT

SECTION 1. (a) There is hereby created a body corporate with the name "Reconstruction Finance Corporation" (herein called the Corporation). [, with a capital stock of $100,000,000 subscribed by the United States of America. Its] *The Corporation is authorized to aid in financing industry, agriculture, and commerce, to encourage small business, to help in maintaining the economic stability of the country, and to assist in promoting maximum employment and production, in the manner hereinafter provided, and, when specifically directed, to perform certain duties and functions in connection with the national defense and foreign policy programs of the United States. The* principal office *of the Corporation* shall be [located] in the District of Columbia, but there may be established agencies or branch offices in any city or cities of the United States under rules and regulations prescribed by the [Board of Directors.] *Administrator.* This Act may be cited as the "Reconstruction Finance Corporation Act."

(b) Within six months after the close of each fiscal year the Corporation shall make a report to the Congress of the United States which shall contain *the* financial statements for the fiscal year, including a balance sheet, a statement of income and expenses *for all lending operations, a statement of income and expenses for major classes of loans,* and an analysis of accumulated net income. [The accumulated net income shall be determined after provision for reasonable reserves for uncollectibility of loans and investments outstanding.] Such statements shall be prepared from the financial records of the Corporation which shall be maintained in accordance with generally accepted accounting principles applicable to commercial corporate transactions, *including the maintenance of adequate records so that the development of data necessary to report the results of its lending activities by major classes of loans can be accomplished.* The report shall contain schedules showing, as of the close of the *Corporation's* fiscal year, [each direct loan to any one borrower of $100,000 or more, each loan to any one borrower of $100,000 or more] *direct loans totaling $100,000 or more to any one borrower; loans totaling $100,000 or more, to any one borrower* in which the Corporation has a participation or an agreement to participate[,] ; and the investments in the securities and obligations of any one borrower which total $100,000 or more. [Within six months after the end of each fiscal year, beginning with the fiscal year ended June 30, 1948, the Corporation shall pay over to the Secretary of the Treasury as miscellaneous receipts, a dividend on its capital stock owned by the United States of America, in the amount by which its accumulated net income exceeds $250,000,000.]

[(c) Within sixty days after the effective date of this amendment, the Corporation shall retire all its outstanding capital stock in excess of $100,000,000 and shall pay to the Treasury as miscellaneous receipts the par value of the stock so retired.]

SEC. 2. (a) The management of the Corporation shall be vested in [a board of directors consisting of five persons] *an Administrator* appointed by the President

of the United States by and with the advice and consent of the Senate [.] , *and who shall receive compensation at the rate of $17,500 per annum.*

*"(b) To assist the Administrator in the execution of the functions vested in the Corporation there shall be a Deputy Administrator who shall be appointed by the President of the United States, by and with the consent of the Senate, and who shall receive compensation at the rate of $16,000 per annum. The Deputy Administrator shall perform such duties as the Administrator may from time to time designate, and shall be Acting Administrator and perform the functions of the Administrator including his functions as a member and the Chairman of the Loan Policy Board hereinafter provided for during the absence or disability of the Administrator or in the event of a vacancy in the Office of the Administrator.*

[Of the five members of the board, not more than three shall be members of any one political party and not more than one shall be appointed from any one Federal Reserve district. The office of director shall be a full-time position. The term of the incumbent directors is hereby extended to June 30, 1950. As of July 1, 1950, two directors shall be appointed for a term of one year, two directors shall be appointed for a term of two years, and one director shall be appointed for a term of three years. Thereafter the term of the directors shall be for a term of three years, but they may continue in office until their successors are appointed and qualified.]

*The Administrator and the Deputy Administrator shall be appointed for terms of three years, but each may continue in office until his successor is appointed and qualified. The Administrator and the Deputy Administrator shall be eligible for reappointment.*

Whenever a vacancy shall occur in the office of [director] *Administrator or Deputy Administrator,* other than by expiration of term, the person appointed to fill such vacancy shall hold office for the unexpired portion of the term [of the director whose place he is selected to fill. After the confirmation of the directors by the Senate, the President shall designate one of the directors to serve as chairman for a period coextensive with his term as director. The directors, except the chairman, shall receive salaries at the rate of $15,000 per annum each. The chairman of the board of directors shall receive a salary at the rate of $16,000 per annum.] *The incumbents of the Office of Administrator or Deputy Administrator on the effective date of this Act shall continue in office and their terms shall be deemed to begin on the effective date of this Act.*

*(d) No person shall, while holding the office of the Administrator or Deputy Administrator, engage in any business, vocation, or employment other than thdt involved in holding such office.*

*(e) (1) There is hereby established the Loan Policy Board of the Reconstruction Finance Corporation, which shall be composed of the following members, all ex officio: The Administrator, as Chairman, the Deputy Administrator, as Vice Chairman, the Secretary of the Treasury, the Secretary of Commerce, and one other member who shall be designated from time to time by the President from among the officers of the United States who are required to be appointed by and with the advice and consent of the Senate. Either of the said Secretaries and the said designee of the President may designate an officer of his department or agency to act in his stead as a member of the Loan Policy Board with respect to any matter or matters.*

*(2) The loan Policy Board shall establish general policies (particularly with reference to the public interest involved in the granting and denial of applications for financial assistance by the Corporation and with reference to the coordination of the functions of the Corporation with other activities and policies of the Government) which shall govern the granting and denial of applications for financial assistance by the Corporation.*

*(f) The Administrator may from time to time make such provisions as he shall deem appropriate with respect to the performance by any officer, employee, or administrative unit under his jurisdiction of any function of the Administrator.*

SEC. 3. (a) The Corporation shall have succession through June 30, 1956, unless it is sooner dissolved by an Act of Congress. It shall have power to adopt, alter, and use a corporate seal; to make contracts; to lease or purchase such real estate as may be necessary for the transaction of its business; to sue and be sued, to complain and to defend, in any court of competent jurisdiction, State or Federal; to select, employ, and fix the compensation of such officers, employees, attorneys, and agents as shall be necessary for the transaction of the business of the Corporation, in accordance with [laws, applicable to the Corporation, as in effect on June 30, 1947, and as thereafter amended] *the applicable provisions of the Classification Act of 1949 and any other laws applicable to the Corporation and to require bonds from such of them as the Corporation may designate,*

*the premiums therefor to be paid by the Corporation;* and to prescribe, amend, and repeal, by its [board of directors] *Administrator,* bylaws, rules, and regulations governing the manner in which its general business may be conducted. Except as may be otherwise provided in this Act or in the Government Corporation Control Act, the [board of directors] *Administrator* of the Corporation shall determine the necessity for and the character and amount of its obligations and expenditures under this Act and the manner in which they shall be incurred, allowed, paid, and accounted for, without regard to the provisions of any other laws governing the expenditure of public funds, and such determination[s] shall be final an conclusive upon all other officers of the Government. The Corporation shall be entitled to and granted the same immunities and exemptions from the payment of costs, charges, and fees as are granted to the United States pursuant to the provisions of law codified in [sections 543, 548, 555, 557, 578, and 578a of title 28 of the United States Code, 1940 edition] *section 2412 of title 28 of the United States Code.* The Corporation shall also be entitled to the use of the United States mails in the same manner as the executive departments of the Government. Debts due the Corporation, whether heretofore or hereafter arising, shall not be entitled to the priority available to the United States pursuant to section 3466 of the Revised Statutes (U. S. C., title 31, sec. 191) except that the Corporation shall be entitled to such priority with respect to debts arising from any transaction pursuant to any of the following Acts or provisions in effect at any time: Sections 5d (1) and 5d (2) of the Reconstruction Finance Corporation Act added by section 5 of the Act entitled "An Act to authorize the purchase by the Reconstruction Finance Corporation of stock of Federal home-loan banks; to amend the Reconstruction Finance Corporation Act, as amended, and for other purposes", approved June 25, 1940 (54 Stat. 573); sections 4 (f) and 9 of the Act entitled "An Act to mobilize the productive facilities of small business in the interests of successful prosecution of the war, and for other purposes", approved June 11, 1942 (56 Stat. 354, 356); section 2 (e) of the Emergency Price Control Act of 1942 (56 Stat. 26); the Surplus Property Act of 1944 (58 Stat. 765 and the following); sections 11 and 12 of the Veterans' Emergency Housing Act of 1946 (60 Stat. 214, 215); and section 403 of the Sixth Supplemental National Defense Appropriation Act (56 Stat. 245); *and the Defense Production Act of 1950 (Public Law 774, Eighty-first Congress) as amended.*

(b) Notwithstanding any other provision of law, the right to recover compensation granted by the Act approved September 7, 1916, as amended (5 U. S. C., sec. 751), shall be in lieu of, and shall be construed to abrogate, any and all other rights and remedies which any person, except for this provision, might, on account of injury or death of an employee, assert against the Corporation or any of its subsidiaries.

SEC. 4. (a) [To aid in financing agriculture, commerce, and industry, to encourage small business, to help in maintaining the economic stability of the country, and to assist in promoting maximum employment and production,] *Where it has been determined by the Corporation that financial assistance is not otherwise available on reasonable terms and that a substantial public interest would be served,* the Corporation [,] within the limitations hereinafter provided, is authorized, *either directly or in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participations, or otherwise—*

(1) [To] *to* purchase the obligations of and to make loans to any business enterprise organized or operating under the laws of any State or the United States [: Provided, That the purchase of obligations (including equipment trust certificates) of, or the making of loans to, railroads engaged in interstate commerce or air carriers engaged in air transportation as defined in the Civil Aeronautics Act of 1938, as amended, or receivers or trustees thereof, shall be with the approval of the Interstate Commerce Commission or the Civil Aeronautics Board, respectively: Provided further, That in the case of such railroads or air carriers which are not in receivership or trusteeship, the Commission or the Board, as the case may be, in connection with its approval of such purchases or loans, shall also certify that such railroad or air carrier, on the basis of present and prospective earnings, may be expected to meet its fixed charges without a reduction thereof through judicial reorganization except that such certificates shall not be required in the case of loans or purchases made for the acquisition of equipment or for maintenance.];

(2) To make loans to any financial institution organized under the laws of any State or of the United States[. If the Secretary of the Treasury certifies to the Corporation that any insurance company is in need of funds for capital purposes, the Corporation may] *and to* subscribe for or make loans upon nonassessable

preferred stock in [such] *any* insurance company *organized under the laws of any State or of the United States.* In any case in which, under the laws of the State in which it is located, any such insurance company [so certified] is not permitted to issue nonassessable preferred stock, or if such laws permit such issue of preferred stock, only by unanimous consent of stockholders, the Corporation is authorized to purchase the legally issued capital notes or debentures of such insurance company[.];

(3) [In] *in* order to aid in financing projects authorized under Federal, State, or municipal law, to purchase the securities and obligations of, or make loans to, (A) States, municipalities, and political subdivisions of States, (B) public agencies and instrumentalities of one or more States, municipalities, and political subdivisions of States, and (C) public corporations, boards, and commissions: *Provided,* That no such purchase or loan shall be made for payment of ordinary governmental or nonproject operating expenses as distinguished from purchases and loans to aid in financing specific public projects[.]; *and*

(4). [To] *to* make such loans as it may determine to be necessary or appropriate because of floods or other catastrophes: *Provided, that the provisions of section 4 (a) as to availability of credit shall not apply to such loans.*

(b) The powers granted in section 4 (a) of this Act shall be subject to the following restrictions and limitations [:].

(1) [No financial assistance shall be extended pursuant to paragraphs (1), (2), and (3) of subsection (a) of this section, unless the financial assistance applied for is not otherwise available on reasonable terms.] All securities and obligations purchased and all loans made under paragraphs (1), (2), and (3), of subsection (a) of this section shall be of such sound value or so secured as reasonably to assure retirement or repayment [and such loans may be made either directly or in cooperation with banks or other lending institutions through agreements to participate or by the purchase of participations, or otherwise].

(2) No loan, including renewals or extensions thereof, may be made under sections 4 (a) (1), (2), and (4) for a period or periods exceeding ten years and no securities or obligations maturing more than ten years from date of purchase by the Corporation may be purchased thereunder: Provided, That the foregoing restriction on maturities shall not apply to securities or obligations received by the Corporation as a claimant in bankruptcy or equitable reorganization or as a creditor in proceedings under section 20b of the Interstate Commerce Act, as amended: Provided further, That any loan made or securities and obligations purchased prior to July 1, 1947, may in aid of orderly liquidation thereof or the interest of national security, be renewed or the maturity extended for such period not in excess of ten years and upon such terms as the Corporation may determine: [Provided] *And provided* further, That any loan made under section 4 (a) (1) for [the purpose of constructing industrial facilities] *construction purposes* may have a maturity of ten years plus such additional period as is estimated may be required to complete such construction. The Corporation may, in carrying out the provisions of subsection 4 (a) (3), purchase securities and obligations, or make loans including renewals or extensions thereof, with maturity dates not in excess of forty years, as the Corporation may determine.

(3) In agreements to participate in loans, wherein the Corporation's disbursements are deferred, such participations by the Corporation shall be limited to 70 per centum of balance of the loan outstanding at the time of the disbursement, in those cases where the total amount borrowed is $100,000 or less, and shall be limited to 60 per centum of the balance outstanding at the time of disbursement, in those cases where the total amount borrowed is over $100,000.

[(c)] *(4)* The total amount of investments, loans, purchases, and commitments made subsequent to June 30, 1947, pursuant to [section 4 shall not exceed $3,750,000,000 outstanding at any one time; *Provided,* That the aggregate amount] *authority granted by subsections (a) (4), (a) (3), and (a) (2) of section 4, which the Corporation may have* outstanding at any one time shall not exceed (1) under subsection (a) (4) $40,000,000, (2) for construction purposes under subsection (a) (3) $200,000,000, and (3) [under the last two sentences of] *for financial assistance through the subscription for or loan upon nonassessable preferred stock, or capital notes or debentures to insurance companies under* subsection (a) (2) $15,000,000.

*(5) No loan or other financial assistance shall be extended under authority contained in 4 (a) (1) unless there is reasonable cause to believe that the total amount of funds supplied including interest thereon can be repaid within ten years from date of initial disbursement, either from earnings of the borrower or through means, other*

*than liquidation of the borrower, contemplated at the time the application was approved by the Corporation.*

*(6) All applications for loans or other financial assistance totaling $100,000 or more to any borrower must be approved by the Administrator. In any instance where such an application is approved over the adverse recommendation of the Board of Review provided for in paragraph (8) of this subsection, or disapproved over the recommendation of said Board, a memorandum shall be placed in the loan file setting forth the Administrator's reasons for such approval or disapproval.*

*(7) Each loan made hereafter by the Corporation to any borrower pursuant to paragraphs (1), (2), or (3) of subsection (a) of this section shall be conditioned upon the execution of an agreement between the Corporation and such borrower by which such borrower shall undertake that it will not, within two years after the date of the making of such loan, employ, tender any office or employment, to, or retain for professional services any person who on the date such loan was made or within one year prior thereto shall have served as a director or Administrator or Deputy Administrator of the Corporation, or as an officer, attorney, agent, or employee of the Corporation occupying a position or engaging in activities which the Administrator shall have determined to involve the exercise of discretion with respect to the making of loans to borrowers pursuant to paragraphs (1), (2), or (3) of subsection (a) of this section unless—*

*(A) the Administrator shall have determined that such person, on the date such loan was made and within one year prior thereto, was employed by the Corporation only in a branch or field office of the Corporation which did not, and under ordinary procedures of the Corporation would not, perform any function in connection with the negotiation, modification, supervision, or collection of such loan; or*

*(B) such person (I) shall be employed at the request of the Administrator upon his determination that such employment is advisable to safeguard the interests of the Corporation, (II) will receive no compensation from the Corporation for such employment other than his regular salary and (III) will receive no compensation from such borrower for such employment: Provided, That compensation so paid by the Corporation shall not be considered in computing any limitation on administrative expenses.*

*As used in this paragraph, the term "loan" shall include any extension of financial assistance, by loan or otherwise, pursuant to this Act.*

*(8) All applications for loans or other financial assistance referred toin paragraph (6) of this subsection shall be reviewed by a Board of Review consisting of not less than five persons selected by the Administrator from among personnel of the Corporation having major responsibilities assigned to them and who shall receive no additional compensation for such services. It shall be the duty of the said Board to submit to the Administrator a written decision or finding in each case. Each member of the Board shall serve without compensation other than the compensation received as senior examiner and shall not be removed from the said Board without cause.*

*(9) No application for a loan or other financial assistance shall be approved by the Corporation unless the basis for the determination of substantial public interest as required by section 4 (a), has been reduced to writing and made a permanent part of the files of the Corporation. The Administrator shall make the determination in all cases where the applications total $100,000 or more to any borrower.*

*(c) It shall be unlawful for any applicant for a loan or other financial assistance under the provisions of this Act, directly or indirectly, to pay or agree to pay or to procure any person to pay or agree to pay, or for any other person directly or indirectly to receive, or agree to receive, any fee, commission, bonus, or other compensation of any kind, in connection with any application for or the obtaining of a loan or other financial assistance, in excess of reasonable compensation for proper services thus rendered as determined by the Reconstruction Finance Corporation. Each loan granted shall be on condition that the borrower shall accept the determination of the Corporation, made pursuant to regulations established by the Administrator, as conclusive of the reasonableness of such compensation. Amounts thus allowed shall be made matters of public information.*

*Any applicant for a loan or other financial assistance under the provisions of this Act who pays or agrees to pay, or any other person who receives or agrees to receive, any fee, commission, bonus, or other compensation of any kind in connection with any application for a loan or other financial assistance and who fails to report or to insure that it is reported in the application or in a supplemental amendment to the application filed with the Reconstruction Finance Corporation prior to the granting of such loan or other financial assistance, or who thereafter makes or receives such a payment, or enters into an agreement providing for such payment, without prior*

*approval of Reconstruction Finance Corporation, shall be fined not more than $10,000, or imprisoned not more than five years, or both.*

[(d) No fee or commission shall be paid by any applicant for financial assistance under the provisions of this Act in connection with any such application, and any agreement to pay or payment of any such fee or commission shall be unlawful.]

[(e)] *(d)* No [director] *Administrator, Deputy Administrator,* officer, attorney, agent, or employee of the Corporation in any manner, directly or indirectly, shall participate in the deliberation upon or the determination of any question affecting his personal interest, or the interests of any corporation, partnership, or association in which he is directly or indirectly interested.

[(f)] *(e)* The powers granted to the Corporation by this section 4 shall terminate at the close of business on June 30, 1954, but the termination of such powers shall not be construed (1) to prohibit disbursement of funds on purchases of securities and obligations, on loans, or on commitments or agreements to make such purchases or loans, made under this Act prior to the close of business on such date, or (2) to affect the validity or performance of any other agreement made or entered into pursuant to law.

*(f) The Corporation shall maintain as a permanent part of its records a docket which during the regular business hours of the Corporation shall be kept available for public inspection. The following information shall be posted in the said docket without delay upon receipt of an application for a loan:*

*(1) The name of the applicant and, in the case of corporate applicants, the names of the officers and directors thereof.*

*(2) The amount and duration of the loan for which application is made.*

*(3) The purpose for which the proceeds of the loan are to be used.*

*(4) A description of the security offered.*

*(5) The names of all persons who shall represent the applicant or who shall intercede for the applicant or who shall attempt to influence the Reconstruction Finance Corporation in any manner either for or against the applicant in the exercise of its judgment in connection with said loan.*

*Duplicate copies of this docket shall be maintained both in the Agency office in which the loan application is filed and in the Washington office of the Corporation*

*(g) In order to enable the Corporation to carry out the provisions of this Act, the Treasury Department, the Comptroller of the Currency, the Federal Reserve Board, the Federal Reserve banks, the Securities and Exchange Commission, the Interstate Commerce Commission, and the Civil Aeronautics Board are hereby directed, under such conditions as they may prescribe, to make available to the Corporation at its request such reports, records or other information as they may have, relating to the condition of existing borrowers and applicants for loans under this Act, or relating to obligors whose obligations are offered to or held by the Corporation as security for loans under this Act. Every applicant for a loan under this Act shall as a condition furnished by such authorities to the Corporation upon request precedent thereto, consent to such examination as the Corporation may require for the purposes of this Act and that reports of examinations by constituted authorities may be therefor.*

*(h) Section 410 of the Civil Aeronautics Act of 1938, as amended is hereby repealed.*

[(g)] *(i)* As used in this Act, the term "State" includes the District of Columbia, Alaska, Hawaii, Puerto Rico, *Guam,* and the Virgin Islands.

[(h) The Corporation may subscribe for the nonassessable stock of the Federal National Mortgage Association: *Provided,* That the total face amount of stock so subscribed for and held by the Corporation shall not exceed at any one time $20,000,000.]

SEC. 5. [Section 5202 of the Revised Statutes of the United States, as amended, is hereby amended by striking out the words "War Finance Corporation Act" and inserting in lieu thereof the words "Reconstruction Finance Corporation Act".] *It shall be the general policy of the Corporation to establish interest rates on loans that, in the judgment of the Administrator, will cover the costs as determined under section 7 (c), administrative expenses and other expenses, and a risk factor which, over all will provide for losses that may materialize on loans.*

SEC. 6. The Federal Reserve banks are authorized and directed to act as custodians and fiscal agents for the Corporation in the general performance of its powers conferred by this Act and the Corporation may reimburse such Federal Reserve banks for such services in such manner as may be agreed upon.

SEC. 7. [The Corporation may issue to the Secretary of the Treasury its notes, debentures, bonds, or other such obligations in an amount outstanding at any one time sufficient to enable the Corporation to carry out its functions under this Act or any other provision of law, such obligations to mature not more than five years from their respective dates of issue, to be redeemable at the option of

the Corporation before maturity in such manner as may be stipulated in such obligations. Such obligations may mature subsequent to the period of succession of the Corporation. Each such obligation shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate of outstanding marketable obligations of the United States as of the last day of the month preceding the issuance of the obligation of the Corporation. The Secretary of the Treasury is authorized to purchase any obligations of the Corporation to be issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under the Second Liberty Bond Act, as amended, are extended to include any purchases of the Corporation's obligations hereunder.] *(a) The Corporation is authorized to obtain money from the Treasury of the United States, for use in the performance of the functions, powers, and duties granted to or imposed upon it by this Act or any other provision of law, not to exceed a total of $1,300,000,000 outstanding at any one time. For this purpose appropriations not to exceed $1,300,000,000 are hereby authorized. Amounts appropriated hereunder shall become and will be administered as a revolving fund to effectuate the provisions of this Act. Advances shall be made to the Corporation from the revolving fund upon the written request of the Corporation. As the Corporation repays the amounts obtained from the Treasury, the repayments shall be made to the revolving fund.*

*(b) Within thirty days after the appropriations authorized in section 7 (a) have been made available, the Corporation shall retire its capital stock, shall redeem its outstanding notes held by the Treasury, and shall pay into miscellaneous receipts of the Treasury the amount of its accumulated earnings except for $20,000,000, and the accumulated earnings for the then current fiscal year. Thereafter, the accumulated earnings in excess of $20,000,000 shall be paid annually, within ninety days after the close of each fiscal year, into miscellaneous receipts of the Treasury. Necessary adjustment arising from earnings redetermination shall be made within a reasonable time thereafter. The Corporation's power to issue its notes, debentures, bonds, and other obligations to the United States Treasury, except as provided under section 7 (a), is hereby rescinded.*

*(c) Annual payments shall be made by the Corporation to the Treasury of the United States as miscellaneous receipts by reason of costs incurred by the Government, either directly or indirectly, through the employment of Federal Funds by the Corporation in carrying out the provisions of this Act. These payments shall be computed by applying to the average monthly balance of funds advanced to the Corporation, a percentage determined annually in advance by the Secretary of the Treasury. Such percentage shall not be less than the current average rate which the Treasury pays on its marketable obligations.*

*SEC. 8. The Corporations shall after June 30, 1950, contribute to the civil-service retirement and disability fund, on the basis of annual billings as determined by the Civil Service Commission, for the Government's share of the cost of the civil-service-retirement system applicable to the Corporation's employees and their beneficiaries. The Corporation shall also after June 30, 1950, contribute to the Employees' Compensation Fund, on the basis of annual billings as determined by the Secretary of Labor for the benefit payments made from such fund on account of the Corporation's employees. The annual billings shall also include a statement of the fair portion of the cost of the administration of the respective funds, which shall be paid by the Corporation into the Treasury as miscellaneous receipts.*

SEC. [8] *9.* The Corporation, including its franchise, capital, reserves and surplus, and its income, shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority, except that any real property of the Corporation shall be subject to special assessments for local improvements and shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed. The exemptions provided for in the preceding sentence with respect to taxation (which shall, for all purposes, be deemed to include sales, use, storage, and purchase taxes) shall be construed to be applicable not only with respect to the Corporation but also with respect to any other public corporation which is now or which may be hereafter wholly financed and wholly managed by the Corporation. Such exemptions shall also be construed to be applicable to loans made, and personal property owned by the Corporation or such other corporations but such exemptions shall not be construed to be applicable in any State to any buildings which are considered by the laws of such State to be personal property

for taxation purposes. Notwithstanding any other provision of law or any privilege or consent to tax expressly or impliedly granted thereby, the shares of preferred stock of national banking associations, and the shares of preferred stock, capital notes, and debentures of State banks and trust companies, acquired prior to July 1, 1947, by the Corporation, and the dividends or interest derived therefrom by the Corporation, shall not, so long as the Corporation shall continue to own the same, be subject to any taxation by the United States, by any Territory, dependency, or possession thereof, or the District of Columbia, or by any State, county, municipality, or local taxing authority, whether now, heretofore, or hereafter imposed, levied, or assessed, and whether for a past, present, or future taxing period.

*SEC. 10. (a) The Corporation is authorized and directed to transfer within thirty days after the effective date of this Act, to the Export-Import Bank of Washington, and the Export-Import Bank of Washington is authorized and directed to receive all notes, mortgages, debentures, loan agreements, or other forms of indebtedness, and all collateral and loan files pertaining to the loan to the Republic of the Philippines and the loan to the Steep Rock Iron Mines, Ltd. The Export-Import Bank shall reimburse the Corporation for the net book balances of the loans, as of the date of transfer.*

*(b) The Corporation is authorized and directed to transfer within thirty days after the effective date of this Act, to the Housing and Home Finance Administrator, and the Housing and Home Finance Administrator is authorized and directed to receive, all mortgages, so classified on the Corporation's balance sheet, which originated under authority of the RFC Mortgage Company. The Secretary of the Treasury is authorized and directed to cancel notes of the Corporation in an amount equal to the net book balances of the mortgages as of the date of transfer. The Housing and Home Finance Administrator shall sell or otherwise liquidate the mortgages so transferred at no less than the unpaid balance at date of transaction, plus accrued interest. All income and proceeds from liquidation, less reasonable costs of administration, shall be paid into the Treasury as miscellaneous receipts.*

[SEC. 9. In the event of] *SEC. 11. Upon the* termination of the powers granted to the Corporation by section 4 of this Act [prior to the expiration of its succession as provided in section 3, the board of directors] *the Administrator* shall, except as otherwise herein specifically authorized, proceed to liquidate its assets and wind up its affairs. [It] *He* may with the approval of the Secretary of the Treasury deposit with the Treasurer of the United States as a special fund any money belonging to the Corporation or from time to time received by it in the course of liquidation, for the payment of its outstanding obligations, which fund may be drawn upon or paid out for no other purpose. Any balance remaining after the liquidation of all the Corporation's assets and after provision has been made for payment of all legal obligations shall be paid into the Treasury of the United States as miscellaneous receipts. Thereupon the Corporation shall be dissolved [and its capital stock shall be canceled and retired].

SEC. [10] *12.* If at the expiration of the succession of the Corporation, its [board of directors] *Administrator* shall not have completed the liquidation of its assets and the winding up of its affairs, the duty of completing such liquidation and winding up of its affairs shall be transferred to the Secretary of the Treasury, who for such purpose shall succeed to all the powers and duties of the [board of directors] *Administrator* under this Act. In such event he may assign to any officer or officers of the United States in the Treasury Department the exercise and performance, under his general supervision and direction, of any such powers and duties. When the Secretary of the Treasury shall find that such liquidation will no longer be advantageous to the United States and that all of the Corporation's legal obligations have been provided for, he shall [retire any capital stock then outstanding,] pay into the Treasury as miscellaneous receipts the unused balance of the moneys belonging to the Corporation, and make a final report to the Congress. Thereupon the Corporation shall be deemed to be dissolved.

[SEC. 11. (a) Whoever makes any statement knowing it to be false, or whoever willfully overvalues any security, for the purpose of obtaining for himself or for any applicant any loan, or extension thereof by removal, deferment of action, or otherwise, or the acceptance, release, or substitution of security therefor, or for the purpose of influencing in any way the action of the Corporation, or for the purpose of obtaining money, property, or anything of value, under this Act, shall be punished by a fine of not more than $5,000 or by imprisonment for not more than two years, or both.

[(b) Whoever (1) falsely makes, forges, or counterfeits any note, debenture, bond, or other obligation, or coupon, in imitation of or purporting to be a note, debenture, bond, or other obligation, or coupon, issued by the Corporation; or

(2) passes, utters, or publishes, or attempts to pass, utter, or publish any false, forged, or counterfeited note, debenture, bond, or other obligation, or coupon, purporting to have been issued by the Corporation, knowing the same to be false, forged, or counterfeited; or (3) falsely alters any note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by the Corporation; or (4) passes, utters, or publishes, or attempts to pass, utter, or publish, as true any falsely altered or spurious note, debenture, bond, or other obligation, or coupon, issued or purporting to have been issued by the Corporation, knowing the same to be falsely altered or spurious, or any person who willfully violates any other provision of this Act, shall be punished by a fine of not more than $10,000, by imprisonment for not more than five years, or both.

[(c) Whoever, being connected in any capacity with the Corporation, (1) embezzles, abstracts, purloins, or willfully misapplies any moneys, funds, securities, or other things of value, whether belonging to it or pledged or otherwise entrusted to it; or (2) with intent to defraud the Corporation or any other body politic or corporate, or any individual, or to deceive any officer, auditor, or examiner of the Corporation, makes any false entry in any book, report, or statement of or to the Corporation, or, without being duly authorized, draws any order or issues, puts forth, or assigns any note, debenture, bond, or other obligation, or draft, bill of exchange, mortgage, judgment, or decree thereof; or (3) with intent to defraud participates, shares, receives directly or indirectly any money, profit, property, or benefit through any transaction, loan, commission, contract, or any other act of the Corporation; or (4) gives any unauthorized information concerning any future action or plan of the Corporation which might affect the value of securities, or having such knowledge, invests or speculates, directly or indirectly, in the securities or property of any company, bank, or corporation receiving loans or other assistance from the Corporation, shall be punished by a fine of not more than $10,000 or by imprisonment for not more than five years, or both.

[(d) No individual, association, partnership, or corporation shall use the words "Reconstruction Finance Corporation" or a combination of these three words, as the name or a part thereof under which he or it shall do business. Every individual, partnership, association, or corporation violating this prohibition shall be guilty of a misdemeanor and shall be punished by a fine of not exceeding $1,000 or imprisonment not exceeding one year, or both.

[(e) The provisions of sections 112, 113, 114, 115, 116, and 117 of the Criminal Code of the United States (U. S. C., title 18, ch. 5, secs. 202 to 207, inclusive), insofar as applicable, are extended to apply to contracts or agreements with the Corporation under this Act, which for the purposes hereof shall be held to include loans, advances, discounts, and rediscounts; extensions and renewals thereof; and acceptances, releases, and substitutions of security therefor.]

SEC. [12] *13.* The Corporation is authorized to exercise the functions, powers, duties, and authority transferred to the Corporation by Public Law 109, Seventy-ninth Congress, approved June 30, 1945, but only with respect to programs, projects, or commitments outstanding on June 30, 1947.

SEC. [13] *14.* If any provision of this Act or the application of such provision to any person or circumstances shall be held invalid, the validity of the remainder of this Act, and the applicability of such provision to other persons or circumstances, shall not be affected thereby.

CIVIL AERONAUTICS ACT OF 1938, AS AMENDED (49 U. S. C., SEC. 490)

* * * * * * *

[SEC. 410. The Board is empowered to approve or disapprove, in whole or in part, any and all applications made after the effective date of this section for or in connection with any loan or other financial aid from the benefit of, any air carrier. No such loan or financial aid shall be made or given without such approval, and the terms and conditions upon which such loan or financial aid is provided shall be prescribed by the Board.]

* * * * * * *

*SEC. 2. This Act shall take effect sixty days after the date of its enactment.*

## INDIVIDUAL VIEWS OF MR. FULBRIGHT CONCERNING THE MINORITY REPORT

When the report of the subcommittee's minority was presented to the Committee on Banking and Currency, I moved that the committee reject it and decline to authorize its submission to the Senate.

In voting against the submission of the report to the Senate, I was quite aware of the fact that the minority members had the power to publicize the report on the floor of the Senate and in the press. The issue to me, therefore, was not whether the report would be suppressed or publicized, but whether it was a document worthy of the endorsement of the Committee on Banking and Currency.

The question was whether this great committee wished to represent to the Senate that this statement by the minority is of such a character that it should be printed as a Senate document with all the prestige which that designation properly carries among our people. I was and am unwilling to say to the Senate that this is a document which I believe should be printed at public expense as a legitimate expression of the views of the minority members upon the issues considered by the Subcommittee on the RFC.

The general tenor of the minority report is, in my opinion, primarily that of a political diatribe against the present administration rather than a serious discussion of the issues involved in S. 515, which is the subject of the majority report. I recognize the power and the right of the Republican members of this committee to indulge in as scurrilous an indictment of the Democratic administration as they please. However, I do not feel that it is my duty to recommend to the Senate that it publish as a Senate document material which I think is irrelevant to the subject matter of the majority report and is unduly abusive of individuals, some of whom no longer are public figures.

Throughout the nearly 2 years of hearings, the members of the subcommittee worked in harmony with remarkably little partisanship or disagreement. There was no intimation from the minority members that the inquiry was not conducted impartially, objectively, and with full respect for the rights of the miniority. It is to me a matter of profound personal regret that in this final report the Republican members have become so critical of the work of the subcommittee and so partisan in their attack, not only upon the administration, but also upon the report of the majority of the subcommittee.

As an example of the extreme partisan, political character of the report, it purports to present a thorough review of revelations of the subcommittee, yet it overlooks one of the most interesting examples of private enrichment of a Republican Member of the Senate, while at the same time rehashing at length a case involving a Democratic Member. Both of these matters having been publicly disclosed, there is nothing to be gained by their reiteration in this report.

The report carries material concerning hearings by another committee of the Senate, which has no relevancy to our study in my

opinion, namely the material dealing with job selling in Mississippi. Many other statements in the report have little relevancy to the RFC, to S. 515, or to anything other than the next presidential election.

The study under Senate Resolution 219 began in the month of February 1950, and it continued as an active project through the entire month of April 1951, a period of 15 months. There was some activity during May of 1951, but for the most part, after April 30, the work of the subcommittee was confined to the drafting of reporting material and the perfection of legislative proposals.

During all of this time, and with respect to all of the undertakings which were crowded into it, the subcommittee had a dissenting minority on only two issues. One of these was reported publicly in the third interim report issued on February 5, 1951. The Senator from Indiana, Mr. Capehart, did not look with favor on the substitution of an administrator for the board of directors of RFC, and he declined to give his approval to S. 514, a bill which sought to make that change and which otherwise had full subcommittee approval.

The other instance in which there was dissent occurred at about the end of April 1951. The chairman of the subcommittee sought then to bring the study under Senate Resolution 219 formally to a close. The chairman found himself in the minority and yielded to the view of the majority whereupon an additional fund of about $10,000 was placed at the subcommittee's disposal for the temporary extension of the work.

Having conducted a long and difficult and controversial study with unusual cooperation and teamwork among its members, the subcommittee suddenly is confronted by violent dissent—not about the quality of its study, not about its findings, not about its legislative proposals, and not about the fundamental policies it would propose for the agency over which it has supervision. The subcommittee is divided by dissent over its omission to take a stand on a legislative proposal, dissolution of the RFC, which has not even been placed before it. It is divided by violent dissent over its decision to attend in an orderly fashion to the legislative business for which it does have responsibility.

The minority would have had the subcommittee dwell at length and in great detail in its final report on the subject of influence peddling and political meddling in the business of RFC. The minority would have had the subcommittee do this even though it had already published a thorough report exclusively on this subject and undertaken to reaffirm its findings on the subject in its final report. It would have had the subcommittee do this even though its main recommendations for the prevention of these things in the RFC had already been accepted and, in large part, made effective.

It would have been appropriate, in my opinion, for the subcommittee's minority to present a statement of their dissenting views and their reasons for holding them. It would have been appropriate also that that statement be accorded a prominent position in the print which is published. Such a statement, however, should be responsive to the issues involved and it should be relevant to the responsibility which has been assigned to the subcommittee.

J. W. FULBRIGHT.

# MINORITY VIEWS

[Pursuant to S. Res. 219, 81st Cong.]

Mr. CAPEHART and Mr. BRICKER, for the minority of the Subcommittee on Reconstruction Finance Corporation, of the Banking and Currency Committee, submitted the following:

## INTRODUCTION

Although they agree with much of the substance of the report of the Subcommittee on Reconstruction Finance Corporation, the Senator from Indiana, Mr. Capehart, and the Senator from Ohio, Mr. Bricker, find that they cannot concur in it without the reservations presented in the following minority report.

The first reservation concerns the continuation of the corporation. In the judgment of the subcommittee's minority, the study of the operations of the RFC has been sufficiently broad to reach a fully justified and substantial conclusion. That conclusion is that the Corporation should be abolished at an early date and its nonlending functions transferred to certain agencies in the executive branch of the Government, as provided in the bill S. 1376. Subcommittee hearings are replete with instances bearing out the considered warning of the Hoover Commission, which said:

> Direct lending by the Government to persons or enterprises opens up dangerous possibilities of waste and favoritism to individuals or enterprises. It invites political and private pressure, or even corruption. (Report on Federal Business Enterprises, March 31, 1949.)

The risks inherent in the making of direct Government loans cannot be eliminated either by reorganization or by congressional prohibitions. These remedies do not go to the heart of the problem. Regardless of the caliber of RFC personnel, the form of organization, or the loan procedures adopted, political influence and favoritism will continue as long as direct Government lending to individuals or enterprises is authorized by the Congress. This is so because the objective tests of financial merit are secondary in RFC loans, and almost all applications to the Corporation involve loans which private lending institutions have found to be economically unsound. In granting certain loans and denying others, the RFC must therefore necessarily use arbitrary and subjective standards.

The subcommittee's minority is not persuaded by the argument that the continuation of the RFC raises a question involving a study of the "entire problem of the ownership and financing of business enterprises in the United States under present-day conditions, and in the foreseeable future," as suggested by the majority of the subcommittee. This seems to the minority to be an evasion of the issue, which is, will the Congress continue to sanction the waste and favoritism inherent in Government direct lending?

Nor does the minority believe there is substantial merit in the contention that the RFC is essential to our present defense effort. The

Defense Production Act of 1950, as amended, assures ample credit for any business which desires to engage in defense production and which has a reasonable chance of making a valuable contribution to national defense. Continuation of the RFC, in the opinion of the subcommittee's minority, would hinder the defense effort, rather than aid it. In an inflationary period, there is certainly no justification for an unnecessary extension of Government credit.

The minority believes the evidence before the subcommittee is clear and irrefutable, and it believes that the Committee on Banking and Currency should recommend the liquidation of the RFC at the earliest practicable time.

The second reservation concerns the completeness of the investigation made. In its study of favoritism and influence, the minority believes the subcommittee stopped far short of completing its investigation. The name of William M. Boyle, Jr., Chairman of the Democratic National Committee, figured prominently in the hearings devoted to this aspect of the investigation. In the judgment of the minority, Mr. Boyle should have been asked to appear before the RFC Subcommittee in order that the subcommittee might have determined the full extent of his influence over the lending operations of the RFC.

The serious nature of this omission is made apparent by recent reports in the public press which tell of an instance in which Mr. Boyle, Mr. Siskind and Mr. Finnegan received substantial payments from an enterprise of the city of St. Louis, which became a borrower from the RFC. The payments began after the RFC loan had been approved, and the inference to be drawn from the published reports is that the payments were made, at least in part, for assistance given in connection with the success of the loan application which had been presented unsuccessfully on three previous occasions. Mr. Siskind was formerly the law partner of Mr. Boyle. Mr. Finnegan was, until recently, the collector of internal revenue for the St. Louis district. The alleged connection of Mr. Boyle and Mr. Finnegan with the American Lithofold loan is discussed later in this report.

In addition to these two specific reservations, the minority of the subcommittee find the report as approved by the majority to be inadequate in that it does not present a sufficient catalog of the activities, the findings, and the accomplishments of the subcommittee's special study under Senate Resolution 219.

The final report on the study should be a complete document in every major respect. It is not sufficient that interim reports have been published and distributed and that the record of the subcommittee's public hearings has been printed and distributed. The final report on the study should present an orderly digest of all interim reports and hearings and all material studied by the subcommittee's staff, and it should present analyses of the testimony taken in the case of each of the principal witnesses. This minority report is designed to bring together in one place a comprehensive review of the evidence and the conclusions which we derive from that evidence.

The report of the majority does not discuss the subcommittee's off-the-record activities having to do with reorganization of the RFC. It does not show that the chairman of the subcommittee, accompanied by the Senator from Illinois, Mr. Douglas, and the Senator from New Hampshire, Mr. Tobey, called on the President and advised him of the moral deterioration which had been uncovered within

the RFC. The President decided to take no action on the suggestion that the RFC be reorganized under the authority provided in the Reorganization Act of 1949. The majority report does not indicate that it was only after the President's failure to act that the subcommittee issued its third interim report, entitled "Favoritism and Influence." The President's evaluation of this report as "asinine" was not a snap judgment since it was made after the subcommittee had acquainted him with the salient facts of its investigation up to that time.

The majority report makes no effort to prove that the third interim report was not "asinine." The facts in support of this conclusion were further developed in the public hearings held after the President's "asinine" comment, but they are not reviewed in the majority's report. This report is an attempt to cover that deficiency.

The subcommittee has issued interim reports concerning the Texmass loan, the Kaiser-Frazer loans, and certain aspects of the Lustron loans. In the interim reports singling out these borrowers, the subcommittee invited particular public attention to their dealings with the RFC. However, though it made equally extensive studies in many other cases, and held public discussions of them, the subcommittee has not reported its conclusions on these loans. In the final section of this report we discuss some of the loans which the subcommittee studied in detail and our reasons for believing that loan negotiations were not conducted in good faith or that the loans were not in the public interest as required by law.

The report is also silent with respect to the relationship which existed between the RFC and the White House as represented by Mr. Donald Dawson; the relationship which existed between the RFC and the Democratic National Committee; and the relationship which existed between the RFC and individuals in private life who were successful in capitalizing on their influence with the RFC, with the Democratic National Committee, or with the White House. The subcommittee's report is also silent with respect to any evaluation of the moral principles evidenced by those connected with the RFC loans which were reviewed. Moreover, the report proposes no remedy for the exercise of favoritism and influence other than structural changes in the organization of the RFC. The human element is completely ignored.

It is our hope that this minority report will serve to remedy the deficiencies of the subcommittee report noted above. Other than the reservations already listed and hereinafter more fully described, and where the report is not inconsistent with them, the minority have no further objection to it.

## The RFC and the White House

In its third interim report, your subcommittee, while criticizing the enthusiastic response of the Board of Directors of the Corporation to influence brought to bear by various persons, specifically disclaimed any conclusion as to the propriety or impropriety of the acts of those persons who sought to influence the decisions of the Board for personal financial or political gain. The subcommittee recognized that the public might not be so generous in its appraisal of the acts of some of these persons, particularly those highly placed in government. The

subcommittee had already determined that public hearing should be accorded those who felt themselves unfairly treated by the report on favoritism and influence.

As these minority views have pointed out, further public hearings were held, although not entirely at the request of those who held the report unfair to them and, in the case of one individual, only after repeated invitations by the subcommittee and under considerable persuasion by the press and public opinion.

The further hearings did not discredit the subcommittee report, but did provide an extremely illuminating insight into the relationships which existed between the RFC and other public or semipublic agencies. In this final report, the minority of the subcommittee believe the nature and scope of these relationships should be defined.

Further, we do not believe the subcommittee should shrink from explaining the extent of the influence sought to be exerted by those named in the interim report and the circumstances surrounding the attempts. Anything less, in our opinion, would be a failure of responsibility to the general public. The subcommittee also has a more particular responsibility to those persons, both in and out of the corporation, who accepted the subcommittee's invitation to public hearing in the full expectation the subcommittee would take note of their explanations and justifications.

Among the relationships explored by the subcommittee during its extensive hearings, and particularly during the hearings held subsequent to the issuance of the third interim report, is what may be broadly termed the relationship between the RFC and the White House.

It would be naive to suppose that the former RFC Board of Directors was unsympathetic to the suggestions of the President who appointed them. But we do not intend to confine our discussion of the RFC-White House liaison to such a limited field. Other than the direct intervention in the ill-starred Lustron venture, there is no evidence that the Offices of the President were officially and responsibly used in influencing the lending policies of the Corporation.

Rather, the principals in the picture of White House influence on the RFC, as drawn by and from witnesses before the subcommittee, are members of the Presidential staff, minor employees, political hangers-on and self-proclaimed cronies.

### E. MERL YOUNG

The subcommittee's third interim report summarized briefly the success story of one E. Merl Young, an enterprising young man from Missouri, who began his career of Government service in 1940, at an annual salary of $1,080, and who estimated his income for 1950 at $60,000, an estimate he later revised downward to $40,000. Mr. Young objected strenuously to the implication of the third interim report that this increase of some 5,500 percent in income could be attributed to factors other than hard work and ambition, but at least one witness before the subcommittee, a former employer, intimated that Mr. Young's value to his company depended to some extent on the impress n that Young had "pretty close contact in high circles."

Mr. Young, during his employment with private employers, had, and still had at the time of the subcommittee hearings, a White House

pass. Mr. Young's wife was secretary to the President while he served as Senator from Missouri, and was, at the time of the subcommittee hearings, still employed as a secretary at the White House. She has since resigned that position, but the fact of her employment there was certainly kept no secret from Mr. Young's employers. Mrs. Young is a native of Missouri, too, and in fact, comes from the same county as does Donald Dawson, administrative assistant to the President, to whom we shall refer later in his own right in this report.

Whether Mr. Young in fact was a so-called White House intimate, or whether that impression was current as a result of his own descriptions of vivid experiences and conversations with "the boss" (presumably meaning the President), and of the rumors, denied by Mr. Young, that he was related to the President, is a question that need not be resolved here.

It is sufficient for the purpose of this report to point out that Walter Dunham, a director of the RFC, was so deeply impressed with Mr. Young's importance that, when Mr. Young's employer, an RFC borrower, decided to terminate his employment, the director telephoned Donald Dawson in order that the President might be advised.

What Mr. Dawson thought of Mr. Young's influence at the White House is not directly known, but it is certainly relevant that Mr. Dawson took the precaution of notifying the President and relaying the President's very proper response to Director Dunham.

## UP THE LADDER OF SUCCESS

The question of whether Mr. Young's rise to affluence was spectacular, as might be inferred from the third interim report of the subcommittee, or the routine reward of endeavor and ability, as defined by Mr. Young, is another question which we need not resolve. A detailed summary of Mr. Young's employment, together with the duties for which he was compensated, is a part of the record.

Mr. Young entered Government service as a messenger in 1940, at an annual salary of $1,080. His income had risen to $1,440 per year when, 2 years later, he enlisted in the United States Marine Corps. He was placed on an inactive duty status in October, 1945, and started work for the RFC early the next month at an annual salary of $4,500. During the next 3 years, Mr. Young moved from audit control work to the position of examiner, the last position he held with Government, which paid him $7,193 a year.

It is worthy of note that Mr. Young did not take any civil service examination during his employment with the Corporation. Further, approximately a year after his employment with RFC, Mr. Young's record shows he was "reinstated" as an examiner, over the signature of Donald Dawson, at his starting salary of $4,500.

On July 15, 1948, he left the RFC and joined the management of the Lustron Corporation, a company devoted to the manufacture of prefabricated steel houses and almost entirely financed by the RFC. Mr. Young was made assistant secretary of Lustron, in charge of the Washington office, at an annual salary of $12,000. Mr. Young's duties, as he described them, included all relations with Government agencies, excepting the RFC loans, and taking care of local construction of Lustron houses. It is significant that the position Mr.

Young assumed was a newly created one, and that Mr. Young had no prior experience in the housing field.

Mr. Young stated that the president of the Lustron Corp., Mr. Carl Strandlund, offered him the position after an acquaintance which grew from a meeting in an office which Young shared with the examiner who handled some of the Lustron loan matters for the RFC.

Mr. Strandlund gave a somewhat different version of the hiring, and stated that Harvey Gunderson, a director of RFC, in the spring of 1948, requested that Lustron put Mr. Young on the payroll. This request was acceded to by Mr. Strandlund. Mr. Young rose rapidly in the Lustron organization, becoming vice president of the corporation in December 1948, at a salary of $18,000. This was due, Mr. Young quoted Mr. Strandlund as saying, to the fact that Young had earned it, that Young had done a good job. In fact, Mr. Young testified, such a promotion was a company practice. The testimony of Mr. Strandlund is again at odds with that of Mr. Young. According to Lustron's president, he was persuaded to promote Mr. Young and increase his salary by Mr. Harley Hise, then the Chairman of the Reconstruction Finance Corporation, who was quoted by Strandlund as saying that he (Hise) would like to see Mr. Young get something out of it.

At about the same time the Lustron Corp. rewarded Mr. Young with a vice presidency, Mr. Rex C. Jacobs, president of the F. L. Jacobs Co., of Detroit, Mich., also a borrower from RFC, hired Mr. Young at a salary of $10,000 per year.

There is a substantial difference of opinion as to whether Mr. Strandlund knew that Mr. Young was serving two masters. Both Mr. Jacobs and Mr. Young swore Mr. Strandlund knew of the arrangement; Mr. Strandlund swore he did not. There was some relationship between the two companies, so Mr. Young's dual capacity may not have been as demanding as might be supposed.

For example, Mr. Jacobs wanted to install his washing machines in the Lustron houses, for which Mr. Young is alleged to have been promised a commission of $15 per machine, an allegation stoutly denied both by Mr. Young and Mr. Jacobs. Further, allegedly at the instigation of Director Dunham of the RFC, Mr. Jacobs was involved in a proposal to acquire the management of Lustron.

So Mr. Young's duties with the two companies may be considered to have overlapped to some extent, although his loyalties might have been stretched in the process.

In any event, Mr. Jacobs did not doubt his loyalty. He found Mr. Young, he told the subcommittee, "hard working, energetic, loyal, honest, and seemed to be able to do any job we asked him to if it was within his capabilities." When pressed by the chairman as to what sort of job was within Young's capabilities, Jacobs admitted his worth lay primarily in the role of contact man and finder.

Mr. Young's duties with the F. L. Jacobs Co. during the time he was also employed by Lustron were solely, according to his own admission, to encourage Coca-Cola outlets in the Washington area to use the dispenser manufactured by the Jacobs firm. Mr. Young's job, according to Mr. Jacobs, was to create a demand; sales were made by the local bottler. Mr. Jacobs estimated that approximately 1,000 machines were placed in the Washington area.

In addition to his salaries, Mr. Young was recompensed for expenses by both Lustron and Jacobs. For Lustron, Mr. Young testified, the expenses involved travel, hotel bills, "taking people to lunch," and the like. The nature of expenses for the Jacobs Co. was explained as "taking people out to dinner and everything." During the period July 24, 1948, to December 2, 1949, the Lustron Corp. spent a total of $12,078.28 for Mr. Young's expenses. At the same time, the Jacobs Co. was footing the bill for their share of Mr. Young's business upkeep. His account with that firm over the period December 4, 1948, to January 3, 1950, amounted to $8,886.92, of which $6,590.41 was disbursed on entertainment. The account with the Lustron Corp. is not so well itemized, but the available figures indicate that roughly half of the money was spent on "taking people to lunch," and the like.

It is clear that at least a part of the expenses claimed by Mr. Young and allowed by the Lustron Corp. were spent in furthering the cause of Democratic candidates in the general election of November 1948. Mr. Young denied that any such funds were direct political contributions, but admitted he had spent "quite a bit of time" at the Democratic National Committee, working with Mr. William Boyle, who had not at that time succeeded to the chairmanship of the committee. Mr. Young further admitted that his political trips to Texas, Illinois, Ohio, Massachusetts, New York and Missouri had been charged to and paid by Lustron. During the last week of the campaign, Mr. Young traveled with the President, helping to bolster his own reputation as a man with "pretty close contact in high circles."

Mr. Young decided to sever his connections with the Lustron and Jacobs firms at about the same time in the late fall of 1949. There was evidence that the Lustron Corp. had begun to doubt his value. Certain operating economies had been urged on the management of the corporation by the RFC. Mr. Strandlund told RFC Director Dunham that if these economies were effected, Mr. Young would be fired. Mr. Dunham called Mr. Dawson, who checked with the President, then told Mr. Dunham to tell Mr. Strandlund to "go ahead and do what was best without regard to what happened to Mr. Young."

It is not known if Mr. Young was aware of this apparently callous disregard for his fortunes, but matters came to a head about 90 days later, when Mr. Strandlund wrote Mr. Young that Lustron would close its Washington office, and requesting Mr. Young to report for duty 1 week hence in Columbus. Mr. Young resigned 3 days later. Mr. Strandlund and the Lustron board, perhaps fearful of official Washington reaction to Mr. Young's severance from the company, wrote on November 9, 1949, 3 weeks after Mr. Young's resignation, urging him to stay and offering to re-open the Washington office. Mr. Young declined, having made other plans.

Mr. Young told the subcommittee that he decided to leave both Jacobs and Lustron because he had received criticism for working for private concerns who had dealings with the Government. His conscience permitted him to stay with the Jacobs firm only until December 31, 1949, although his expense account with Jacobs shows a final farewell entry of $146.55, dated January 3, 1950, and earmarked "entertainment."

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It was during the late fall of 1949 that Mr. Young became acquainted with Joseph Rosenbaum, of the Washington law firm of Goodwin, Rosenbaum, Meacham, and Bailen. The introduction was made by Mr. Rex Jacobs and was destined to be of signal importance in Mr. Young's career. During the next several months, Mr. Young blossomed as a business entrepreneur, as distinguished from Mr. Young, the contact man. Sometime in November of 1949, his first business venture with Rosenbaum was consummated.

Together with Rex Jacobs and another partner, Mr. Young and Mr. Rosenbaum formed an insurance company, The Commercial Insurance Agency, Inc., which was, initially at least, largely financed by loans from Mr. Rosenbaum. On the record, it is clear that the company was set up solely to write insurance for the F. L. Jacobs Co., although Merl Young was of the impression that there were other policies, including one on his life. Mr. Jacobs testified that the insurance company saved his firm approximately $40,000 in the first year of its existence, so he was obviously satisfied with its performance. Mr. Young was unaware, until the subcommittee hearings, that he was not qualified to solicit or write insurance in Washington, but explained that he was in the process of learning the business, and had, in fact, drawn only $1,900 salary from the company. His credit, however, was considered good enough by the company to permit him to borrow $11,000, of which $4,000 had been paid back at the time of the hearings.

Merl Young's other business ventures with Rosenbaum included the Martin Investment Co., a speculative venture involving a purchase by Mr. Young of 60 shares of stock at $1 per share. The same stock 2 months later sold for $200 per share, although its value at the present time is highly questionable. Mr. Young was brought into the deal by Mr. Rosenbaum, out of pure friendship, the latter said. Mr. Young also paid $500 for an option on 50 percent of the Atlantic Basin Iron Co. stock, another speculation offered to him by Mr. Rosenbaum. Mr. Young admitted he relied largely on Rosenbaum's business judgment, and told the subcommittee, when asked about the company and its operation, that he just did not know anything about it. Mr. Rosenbaum again testified that Young's inclusion was a friendly gesture, and again Mr. Young found his credit surprisingly good. On March 29, 1951, as possessor of a $500 option on the stock of the company he was indebted to the company in the amount of $32,666.66.

Mr. Young also was indebted to the F. L. Jacobs Co. in the amount of $37,000, as a result of an oil venture in which he was involved. Other business interests include a block of stock in the Valley Brewing Co., a proposition in which he was associated with Mr. George Fitzgerald, Democratic national committeeman from Michigan. The money for the brewery stock was borrowed from the Rosenbaum firm.

The chairman of the subcommittee expressed some doubt that Mr. Rosenbaum's sponsorship of Mr. Young's business ventures was based, as Mr. Rosenbaum insisted, entirely on friendship. This doubt was encouraged by the fact that Mr. Jacobs, according to Mr. Rosenbaum, asked him to work with Mr. Young and encouraged the relationship.

Certainly, and in all fairness, it cannot be said that Mr. Young's business acumen recommended him as an associate. He showed, in

his appearances before the subcommittee, an appalling ignorance of his own business ventures and financial status. He was indignant at the suggestion that perhaps the various loans of which he was the recipient were not seriously expected to be repaid. Despite the apparently excellent credit rating Young enjoyed among his friends, and in sharp contrast to his confidence that he had enough assets to very well take care of his indebtedness, Mr. Young's liabilities as of March 29, 1951, exceeded his assets by almost $40,000.

Since September 1950, Mr. Young has been back in the employ of the F. L. Jacobs Co., as its Washington representative, at an annual salary of $18,000 and an apparently unlimited expense account. The advent of the Korean emergency brought with it metal shortages, and Mr. Young's duties have largely concerned themselves with matters before the National Production Authority with respect to critical materials needed by Jacobs for the manufacture of soft-drink vending machines. At the time of the hearings, the only specific examples of his labors which Mr. Young recalled were three instances of filing forms with three officials of NPA. All the information for the forms was accumulated in Detroit and forwarded to Mr. Young, who filled out the necessary reports.

Certain members of the subcommittee were surprised that Mr. Young's work in this regard was valued so highly by the Jacobs firm, but the company president stated he was quite content to let the record stand as made. Then, too, as Mr. Young succinctly stated, "you have to have a little ability to do something."

The above summary of Mr. Young's Government and private business career has been purposely detailed, in order that a fair picture may be drawn of his value to his friends, and that the nature of his operations might be known. Perhaps the most condemning feature of the case of Merl Young is the obvious acceptance of him by persons with whom he was associated as one who could be of influence.

The story of Merl Young, it seems to us, is a repetition of the now familiar Washington expediter—the influence peddler, the contact man, the fixer.

We believe his record provides evidence more than adequate to determine whether his success is a result of his ambition, hard work, and ability, as he claims, or whether it is the old story of the political hanger-on and easy money.

## THE REWARDS OF FRIENDSHIP

One of the most intriguing qualities of Merl Young is the remarkable facility with which he made friends. His attraction in this regard is perhaps matched only by the generous nature of the friends he acquired. As we have already pointed out, Mr. Young was invited into several promising, if speculative, business ventures through the magic of his friendship with Mr. Rosenbaum. His friendship with George Fitzgerald resulted in another.

Mr. Young knew, too, that friendship is a two-way street. He encouraged an applicant before the RFC to employ friend Rosenbaum. Mr. Rosenbaum testified that this result of their friendship was unanticipated. Mr. Young was a friend of Walter Dunham, and, according to Mr. Strandlund, sought his appointment to the RFC Board. In a joint display of friendship, Mr. Jacobs and Mr. Young

encouraged Mr. Dawson and Mr. Boyle to join them and others in an oil venture. Mr. Dawson, however, was less venturesome than friendly, and declined, although the drafted partnership papers carried his and Boyle's names. We do not want to insinuate that Mr. Dawson and Mr. Young were unfriendly. They frequently lunched together, along with other friends in and out of RFC.

Mr. Young was also on very friendly terms with a Mr. Skiles, an employee of the RFC Dallas office. Mr. Skiles recommended Mr. Young's services at one time to the attorney for the Texmass loan applicants, who were at that time still seeking the approval of the RFC for the loan. Mr. Ross Bohannon, the attorney, swore that Mr. Young called him, came to see him, and offered his assistance on the loan. The remuneration for the assistance, according to Mr. Bohannon, was to be on the installment basis—$10,000 down and $7,500 per year for 10 years. Mr. Young denied any guilt, charging that Mr. Bohannon had not only approached him with an offer but had insisted that Mr. Young attempt to get Mr. Boyle to assist in the matter. The proposition struck Mr. Young, he told the subcommittee, as funny; so funny, in fact, that he told Mr. Boyle about it. Mr. Young was never quite able to convince the subcommittee that any such transaction had comic aspects, but it was evident that Mr. Young had made no friend of Bohannon. Other than Mr. Strandlund, whose friendship waned when he learned of Mr. Young's employment with Jacobs, and a young lady in the Dallas RFC office who was downright unfriendly in refusing to come to Washington as Mr. Young's secretary, the subcommittee found few who resisted Mr. Young's blandishments.

One of the more tangible rewards of Young's friendship accrued to his wife. As has been stated, Mrs. Young was employed as an assistant secretary at the White House while her husband was scaling up the ladder of success. Her position was not one of the more important ones, and there is no evidence that she herself at any time sought to take advantage of it. It is highly likely, however, that she was the only assistant secretary to a secretary at the White House who owned a genuine natural royal pastel mink coat. The subcommittee was told that a natural royal pastel mink coat of quality costs the furrier in the neighborhood of $4,500 to make, and the customary retail price is $9,500, including the Federal tax. Happily, the friendly Mr. Rosenbaum had represented the furrier sometime earlier in a loan application to the RFC, so the coat was charged to his account, at a discount of $1,000. We should point out that Mr. Young had nothing whatever to do with the furrier's loan application, either at the RFC or elsewhere. The coat was paid for by Mr. Rosenbaum. However, after the transaction had been widely publicized, Mr. Rosenbaum's brother stopped at the furrier's New York salesroom and told him that Mr. Young had paid Mr. Rosenbaum for the coat. Mr. Rosenbaum testified he held Young's secured note for the full amount, and Mr. Young's list of liabilities, as of March 29, 1951, shows an indebtedness of $8,540 for Mrs. Young's genuine natural royal pastel mink coat.

### THE PRICE OF MERL YOUNG

In the opinion of the minority of the subcommittee, Mr. Young was, and may still be, a specimen of a type which has come to pervade the executive branch of our Federal Government. He is in the pattern of the 5-percenters, the deepfreeze crowd. The shocking aspect of the story of Merl Young is that he is tolerated and sometimes even encouraged by the present administration. As we have stated before, the question of whether Merl Young could influence official decisions is really not the vital one.

The point is that Mr. Young sold the commodity of influence, whether spurious or genuine, and that shrewd men of undoubted ability in the legal, business, and political worlds bought his ware. Knowing this, the officials of Government with whom Merl Young claimed contact—the "first-name friends"—owed a duty to the public to speak out in denial of Mr. Young, and to cut finally and absolutely the tenuous threads by which such parasites sap the Government, financially and, more important, morally.

No one spoke out, and no one uprooted Young. The apparent complete inability or unwillingness of the present administration to rid itself of bloodsuckers is due, we believe, to weaknesses within the administration. In all fairness, it is not entirely a matter of "government by crony," as some would have it. We believe, rather, that one of the primary faults is a complete ignorance of ethical standards, a reliance on skirting the illegal act, a defense of legal immorality.

The President may well have been sincere in stating his opinion that his administration was composed of honorable men. We shall only question his inferred definition of honor. It is essential that the American people understand that a man may be guiltless but not honorable; and, particularly, that what is defensible in a courtroom is far from measuring up to the ethical standards we have a right to expect from public servants. And that, logically, brings us to a consideration of Donald Dawson.

### DONALD DAWSON

Donald Dawson was and is an administrative assistant to the President of the United States and is charged with primary responsibility for personnel matters. Mr. Dawson, also a native of Missouri, served in the Reconstruction Finance Corporation as personnel director prior to entering the office of the President. It was while at the RFC that he met and married Mrs. Alva Dawson, who now is in charge of the files of the corporation. Also, while an employe of the RFC, Mr. Dawson became friendly with Merl Young and his wife. Mr. Dawson's duties at the White House are largely concerned with the President's appointing powers, or what may be termed his personal patronage. He screens potential appointees and submits nominees, together with such recommendations as the President desires, to the President for decision. In his testimony, Mr. Dawson belittled his own influence on the Presidential decision.

Mr. Dawson was mentioned in the third interim report as one to whose influence the RFC Board had been unusually receptive. He denied that he had any influence and, more emphatically, that he had ever tried to influence the RFC Board.

The testimony of Walter Dunham, a nominal Republican member of the Board, is certainly not on all fours with Mr. Dawson's contention. Mr. Dunham was convinced that the White House had especial interest in the workings of RFC, and that it was his duty to confer with an report to Mr. Dawson on matters of more than routine implications. So far as we know, Mr. Dawson did nothing to disengage Dunham from this belief.

Mr. Dawson's reaction to your subcommittee's third interim report was, like his employer's, distinctly unfavorable. His resentment did not go so far as to bring him posthaste before the subcommittee to clear his name, nor even did it bring swift response to the repeated invitation of the subcommittee to appear.

Finally, however, Mr. Dawson did testify before the subcommittee. The tenor of his statements was generally in the nature of a denial of the inferences which might be drawn from his actions, rather than a denial of the acts themselves.

For example, Mr. Dawson readily admitted his propensity for frequent luncheons with Young, Dunham, Willett, Jacobs, and others, but stated they were more social than official, and directed, if at all, to the end that the President's official family might be one big happy one. He admitted, too, being, on three occasions, a guest of Rex Jacobs at his Florida house, along with, at different times, Merl Young, Boyle, and Mr. James Finnegan, formerly collector of internal revenue at St. Louis. At the time, Mr. Dawson admitted, he was aware of the fact that Jacobs was a borrower from the RFC. He denied, however, that the Florida visits were more than social.

Purely social, too, Mr. Dawson informed the subcommittee, were the many telephone calls between Dunham and Dawson and Young and Dawson. Mr. Dawson's testimony somehow leaves the picture that, while the discussion of Government business was not really tabu in his association with other Government officials and private businessmen, it was more or less agreed among gentlemen that it would not be discussed. Certainly, the recollection of other witnesses, notably Mr. Dunham, of these associations is at odds with Mr. Dawson's innocent views.

The minority of the subcommittee cannot accept Mr. Dawson's glib explanations at face value. Obviously, he was not courted by Rex Jacobs for his conversational talents. He, like Merl Young, had entree to the White House. He undoubtedly had the President's ear. Walter Dunham testified that he liked and admired Mr. Dawson; he also testified that he knew he was to clear RFC personnel policy matters through Mr. Dawson, and, in the case of Merl Young, meticulously carried out those orders. Mr. Dawson's associations with the officials of the RFC and with businessmen who had RFC aspirations may have been social, but they were also a great deal more than that, and we would be hopelessly naive if we thought otherwise.

The full extent of Mr. Dawson's influence and attempted influence on the RFC Board cannot be known. Mr. Dawson was, and is, in the excellent position of being able, as one member of the subcommittee noted, to "hint a fault and hesitate dislike". His cultivated friendship with Board members made his effectiveness subtle.

But even if we were to accept Mr. Dawson's protestations at full value, even if we were to exalt his motives, we still must condemn, rather than condone, his acts. As we have pointed out already, the question is not at all one of legality or illegality. What is here involved

is the question of moral and ethical standards of public servants, in this case one in close association with the highest office our system of Government offers.

Other incidents involving Donald Dawson bring into sharp relief the traits of character to which we referred earlier in this report.

The first of these involves the well-publicized Saxony Hotel in Miami, Fla., built by a reputed punchboard king, with funds borrowed from the RFC. Mr. Dawson visited the hotel on three occasions, once with his family. On none of these stays was he charged for his accommodations. An associate at the White House, David Niles, had stayed there earlier and had recommended it to Mr. Dawson, but Mr. Dawson denied that he knew he would be given the rooms. He apparently saw nothing wrong in accepting the hospitality of the Saxony management.

After the initial pleasant surprise of learning he was not to be charged for his accommodations, Mr. Dawson made return trips to the hotel, each time at no expense. We do not believe Mr. Dawson acted in accord with proper ethical standards, even if, as he states, he did not know of nor solicit the complimentary accommodations on his first visit. On his second and third visits he well knew what to expect. Action of this sort, at a time when public service is in lesser regard than should be, suggests to the public mind that the Government is peopled with men of this nature, who accept favors from those who would have Government favors in return.

And whether Donald Dawson would return those favors is not really in point, for he was in a position where he might well have, and his actions lay him open to this suspicion. It is significant and typical of the man that Mr. Dawson, while denying he had done wrong in accepting the beneficence of the Saxony management, conceded that, now the matter was public, he would not do it again. We believe it should not have happened the first time.

Further, Mr. Dawson's appraisal of the standards of other public servants is enlightening. When the afore-mentioned Mr. Finnegan was still serving as collector of internal revenue, he (Finnegan) entered into negotiations with the General Services Administration, another Government agency, to secure a lease of the Nicaro Nickel Co., in association with Rex Jacobs. Mr. Dawson was aware of this attempt, but denied he had contacted GSA on behalf of either Mr. Finnegan or Mr. Jacobs. Mr. Dawson was questioned sharply on his appraisal of the ethics of a Government employe bargaining with another Government agency for personal advantage.

Mr. Dawson defended Mr. Finnegan, first with the observation that he understood Mr. Finnegan planned to resign from the Bureau of Internal Revenue if the lease went through. When pressed further, Mr. Dawson stated what may well be a key to understanding the ethical standards of the present administration. He said:

> I wouldn't see offhand why a Government employee should be discriminated against in dealing with a Government agency that they [sic] are not connected with in acquiring something.

The minority of the subcommittee do not agree with that statement.

Finally, we must comment on Mr. Dawson's statement to the press, shortly after he had concluded his appearance before the subcommittee, that the subcommittee had cleared him. That may well be

the opinion of Mr. Dawson, but we doubt if it is the opinion of the subcommittee.

Certainly, the minority of the subcommittee strongly reject such a conclusion. We do not accept Donald Dawson's protestations of innocence. We cannot believe that one in his position can be so totally unaware of the influence of that high position.

Even if we accepted Donald Dawson's explanations, we believe his ethical standards are indefensible. If he is sincere in the beliefs of right and wrong he expressed before us, then he is incapable of honest duty as a public servant and should be summarily dismissed.

## The RFC and Congress

The Congress itself is left behind a veil of doubt by the failure of the majority report to mention pertinent facts uncovered by the subcommittee investigation which followed the unprecedented tactic of the White House in demanding from the Reconstruction Finance Corporation the complete files of the Corporation in its relations with Members of Congress.

In the face of charges by at least one member of the subcommittee in open hearing that the Presidential order was a move to "intimidate" the subcommittee in its investigation, it appears practical that in its final report the subcommittee advise the full committee and the Congress of the facts developed.

It is to the credit of the Congress that but a single incident of reportable nature developed in the subcommittee's investigations that possibly could be related to the RFC files on congressional relations which were impounded by President Truman. This is significant in view of the fact Mr. Donald Dawson, a principal aide to Mr. Truman, testified before the subcommittee that some 900 letters from Members of Congress to the RFC were involved in the Presidential order.

That single incident, as has been disclosed in the public record of the hearings, but not referred to in the majority report, concerned the interest of Senator James A. Murray and his two sons, James A. Murray, Jr., an attorney, and Charles A. Murray, employed in the Senator's office, in connection with an RFC loan of $1,000,000 to the Miami Beach luxury hotel, the Sorrento, approved on September 15, 1949.

### MURRAY

It was disclosed in the hearings that a fee of $21,000 was paid by the Sorrento management to James A. Murray, Jr., as attorney. It is of equal interest that the loan to the Sorranto Hotel had a direct connection to two other Miami Beach hotel loans by the RFC, including one to the Saxony Hotel.

As was pointed out in the hearings, all three loan applications were handled by the same legal counsel and the same firm of certified public accountants. Other matters of note are mentioned elsewhere in this minority report with regard to the granting of the loan to the Saxony Hotel.

Although neither Senator Murray, nor his two sons, James and Charles, ever appeared before the subcommittee in open hearings, the record contains a copy of a letter sent by Senator Murray to Mr. Harley Hise, then Chairman of the RFC Board of Directors, on Octo-

ber 24, 1949, urging the Board of Directors to change its rejection resolution on the Sorrento loan and to grant the loan as requested.

It should be noted here that this single incident referred to came to light not by any scrutiny of the RFC files of congressional letters made either by the Executive Office, or the subcommittee, but through the subcommittee's own examination of circumstances surrounding the Sorrento loan.

Thus, the action by the Chief Executive in obtaining copies of the congressional letter files of the RFC must be classed as a complete failure of purpose, since no improper relationships were involved in the files, or the conclusion drawn that the unprecedented action was properly described by Senator Douglas of the subcommittee when he stated that:

> I do not think that any employee of the Executive Office has any right to ask for any such information or to feed it out to the press, as a tacit means of apprising or intimidation.

Further significance may be attached to this irregular act on the part of the Executive Office in obtaining the RFC congressional files when the testimony of W. Elmer Harber, then Chairman of the RFC Board, is taken into consideration.

Mr. Harber advised the subcommittee his best recollection was that the orders demanding the congressional letter files were transmitted by Mr. Donald Dawson, whose relationship with the RFC investigation is discussed to greater length in another phase of this report.

It is interesting to note that while your subcommittee had difficulty in obtaining unqualified or positive testimony as to the identity of the person transmitting the orders for the files from the White House, it was successful in identifying the recipient of the files for the White House.

The receiver was Mr. Donald Dawson, according to the testimony of Mr. Donald W. Smith, then assistant Executive Manager of the RFC, who said he delivered the files to Mr. Dawson.

Your subcommittee's difficulty in ascertaining who transmitted the orders for the White House to the RFC demanding the files developed from the failure of the memory of Mr. Harber. Nevertheless, your subcommittee did obtain from Mr. Harber, under sworn testimony, the fact that he discussed the submission of the files to the White House with the President.

Mr. Harber said the President, on that occasion, did not advise Mr. Harber as to the purpose involved in the request for the files.

The minority members of your subcommittee feel that since the testimony concerning the episode involving the congressional letters to RFC was developed since the last interim report of your subcommittee on the RFC investigation, the final report of your subcommittee should contain clarifying expressions based on that testimony.

For example, Mr. Donald Dawson appeared before your subcommittee after the last interim report and testified, among other things, to the RFC file of congressional letters.

His testimony tended to clear, unequivocally, the Members of Congress from any irregular relations with RFC, as far as the evidence from the files was concerned.

Mr. Dawson utilized the opportunity of the subcommittee meeting to read the press statement released by the White House with respect

majority report and its omission from that report serves as an injustice to that member.

Reference is made to the revelation of efforts to suppress subcommittee investigation of the activities of Mr. Donald Dawson in connection with RFC loans. This involved a telephone call from Mr. Burton K. Wheeler to Senator Charles W. Tobey in which Mr. Wheeler asked Mr. Tobey to have your subcommittee "go easy" on Mr. Dawson.

Mr. Dawson's testimony in connection with the telephone call to Senator Tobey is of particular significance in order to further clarify the relationship between the Congress and the RFC in the investigation as well as prior to the investigation.

Senator Tobey questioned Mr. Dawson with reference to the incident in which Senator Tobey said that David K. Niles, administrative assistant to President Truman, had inveigled former Senator Wheeler to call Senator Tobey.

Mr. Dawson, while contending he was away from Washington at the time, did admit discussing the incident with Mr. Niles upon his return.

Although Mr. Dawson's testimony tended to confirm Senator Tobey's description of the incident, his testimony gave confirmation only through his unwillingness to deny that Mr. Niles had used Mr. Wheeler as a go-between in attempting to ease your subcommittee's treatment of Mr. Dawson.

The minority members of your subcommittee feel that such action on the part of Mr. Niles and the blunt refusal of Mr. Dawson to deny that such a manipulation was attempted is worthy of reference in the final report of your subcommittee for it obviously denotes White House contempt for congressional investigation of the RFC and casts an ominous shadow over Mr. Dawson's contentions that he had done no wrong.

It seems to the minority members of your subcommittee to be beyond comprehension that the full committee would approve any final report which failed to take cognizance of what apparently was a reprehensible charge by the President against Members of the Congress in connection with the RFC investigation.

Reference is made to Senator Tobey's revelations on the Senate floor on April 11, 1951, that he had recorded a telephone conversation with President Truman in which the President boasted possession of good information that a great many Members of Congress had accepted fees for assisting in acquiring RFC loans for applicants. This reported view of the President is incompatible with the view expressed in the White House press release on the RFC congressional letters, referred to earlier.

It is the obligation of the subcommittee and the full committee to every Member of Congress to review this incident thoroughly in order to lift any possible cloud of doubt from the Congress because of Mr. Truman's unsupported contention as reported by Senator Tobey.

The minority members of your subcommittee wish to call attention further to Senator Tobey's remarkable revelations of April 11. In that address on the Senate floor, Senator Tobey stated that President Truman promised to submit the proof of his charges to the Senator and that the proof would come from the congressional letters

which the President claimed to have before him at the time of the conversation which took place in March 1951.

Two days later, Senator Tobey recalled, he called the White House for the information. The President was resting, he was told, but would call him back. Mr. Tobey said no call was forthcoming and that he finally demanded to see the President on the day before Mr. Truman left on a vacation trip. His visit was accepted by the President who, Senator Tobey related, advised the Senator that he had thought the matter over and decided that the information would reflect on Congress and strengthen existing prejudices.

On March 26, 1951, Senator Tobey wrote the President a letter requesting the information he claimed to have and pointed out that he did not want to be a party to such suppression of information and that if the information were refused again by the President, Senator Tobey would feel inclined to make the matter public.

Three days later, Senator Tobey stated, he received another telephone call from President Truman, and that the President then admitted he had "deduced" and "drawn conclusions" from the letters. Mr. Truman in his second telephone call thus recants on his previous assertion, as reported by Senator Tobey.

Senator Tobey called the incident a "most serious indictment" of the Members of Congress by the President and his evaluation coincides with that of the minority members of your subcommittee.

When the full committee recalls the testimony of Mr. Donald Dawson that he found no evidence in the letters that Congressmen had received fees for obtaining RFC loans for applicants and the statement by Mr. Herz to Senator Fulbright that the letters contained no indication of any undue pressure by Members of Congress on RFC to make loans against the will of the Board of Directors, it would seem the matter requires clarification in a committee report.

The minority members of your subcommittee feel that the only good served by the unprecedented actions of intimidation against the subcommittee and the entire Congress as reviewed in this section of the minority report was the establishment of the fact that the RFC investigation was an absolute necessity and not only uncovered irregular operations within the RFC, but a more than passing interest in those irregular operations by others within the executive branch of the Government.

It is also felt by the minority members of your subcommittee that the ability of the Members of Congress to withstand with full and complete repudiation the charges made in the acts of intimidation is certainly worthy of note in any report approved by the full committee.

## The RFC and the Democratic National Committee

Two men are primarily responsible for maintaining the moral standards of the executive branch of the Government of the United States at a high level. They are the President of the United States and the chairman of the national committee of the President's political party. If these two men do not abuse the vast power of their respective offices, the moral standards of the executive branch will approximate those held by its 2,300,000 employees. We do not believe the moral standards of 2,300,000 Federal employees to be essentially

different than those held by the rest of the American people. We believe those moral standards are high.

Throughout the period covered by the subcommittee's investigation of the RFC, Harry S. Truman was President of the United States. During most of that period William M. Boyle, Jr., served as chairman of the Democratic National Committee. Both are graduates of one of the most corrupt political machines in the history of any State.

They have transferred Pendergast politics to the national level. Morality in government has declined to the lowest ebb in the Nation's history. The American people are deeply ashamed and rightly disturbed.

The national committee of the President's party is an essential mechanism for any President who has no scruples in using the taxpayers' dollars to solidify his political power. Isolated betrayals of the public trust may be expected even when the President and the chairman of his national committee adhere to a high standard of ethical conduct. Wholesale violations of public trust are not likely to occur unless aided and abetted by the chairman of the national committee of the party in power.

The duties of the President of the United States are such that he can devote at best only a few minutes each week to the more than 60 departments and agencies of the executive branch. John Brown, working in agency X, would be well-insulated from political pressures in the absence of intervention by the national committee of the President's party. He would not be likely to meet the unjustified demands of those who asserted political influence. John Brown probably would reason that if the head of his agency can see the busy President only a few minutes each week or month he has little to fear from those who seek to capitalize on their political fidelity or influence.

This entire situation is radically reversed, however, when the influence trader is preceded by a call from Chairman Boyle of the Democratic National Committee or one of his top assistants.

John Brown knows that President Truman and Mr. Boyle confer regularly. He knows that Mr. Boyle speaks for President Truman. He knows that his agency and every other department and agency have information offices to assist people having business with the Government. He knows that if Mr. Boyle intended his friend to receive the same treatment accorded the general public he would have been referred to some other office. If John Brown is reasonably intelligent, he can tell from the inflection of Mr. Boyle's voice precisely what is desired. If John Brown depends on his Government check to support his wife and family, he will lean over backward to satisfy the Democratic National Committee. If he is rigorously honest, he will start laying plans to quit the Government and go into private business.

Of all the Government departments and agencies, the RFC is the one most likely to be seduced. It engages in direct Federal lending to private persons. The Hoover Commission concluded that direct lending by the Government is conducive to waste, favoritism, political and private pressure, and corruption. These dangers inherent in direct Federal lending are magnified by another factor. If the RFC restricts its lending to those who satisfy the market-place tests of creditworthiness, it is criticized for competing with private lending institutions.

During an inflationary period, therefore, when there is an ample supply of private credit, most of the RFC's customers have already been declared unsound risks by private banks. Many questionable loans must be made and many others must be denied.

With millions of dollars available, and in the absence of any definite criteria for distinguishing good and bad loans, the leadership of the Democratic National Committee under the Truman administration has shown that it is willing to supply a political standard for RFC loans which at least has the merit of being definite, readily understandable, and easily administered.

The majority of the subcommittee made no effort to investigate the relationship between certain officers of the Democratic National Committee and the RFC. Many attractive leads developed in the course of investigating the RFC were not followed up. It is reasonable to assume, for example, that the subcommittee could have exposed the Boyle-American Lithofold affair just as easily as did the St. Louis Post-Dispatch.

Because the investigation of the subcommittee was incomplete, the Senate Expenditures Committee is now moving cautiously in the direction of investigating Mr. Boyle's relationship with the RFC.

In recommending full congressional investigation of the chairman of the Democratic National Committee, we concede that such an investigation might injure the Democratic Party in the 1952 elections. It is entirely possible that an all-out investigation of this sort would uncover new scandals. We cannot, therefore, criticize any Democrat for failing to demand a thorough investigation of his party's national committee chairman. Very few men holding elective office are endowed with such unlimited political courage.

However, we would like to express our admiration for the action of Senator Harry F. Byrd in demanding an investigation of Mr. Boyle. We are also inclined to believe that Senator Byrd's characteristic subordination of short-term political advantages to principles of integrity is good politics. We believe that in politics, as in everything else, honesty pays dividends in the long run. If this is not true of America, its days of freedom are numbered.

### THE CASE OF THE CAPTIVE REPUBLICAN

Walter Dunham, of Detroit, Mich., was appointed as a Republican member of the RFC Board of Directors in February 1949. The Reconstruction Finance Corporation Act provides that no more than three of the five Board members may be of the same political party. The intent of Congress in requiring bipartisan representation was to minimize the dangers of favoritism and influence inherent in RFC lending.

The circumstances surrounding Mr. Dunham's appointment illustrate the Truman administration's contempt for bipartisanship, even when required by law. The move to acquire a "tame" Republican for the RFC Board began in January 1948. At that time Mr. Gail Sullivan was acting as chairman of the Democratic National Committee, in the absence of Mr. Robert Hannegan, who was ill. Mr. Sullivan called Mr. Edgar C. Bevan, Democratic national committeeman for Michigan, and asked him to recommend a Republican to fill

a possible vacancy on the RFC Board of Directors (record of hearings, pp. 699, 700). Mr. Bevan recommended Walter Dunham (record of hearings, p. 700).

In April 1948, prior to his appointment, Mr. Dunham came to Washington to confer with President Truman and his patronage aide, Donald Dawson. Mr. Dunham's prepared statement gives this account of the preappointment confab:

> Upon my arrival in Washington, I went through Mr. Donald Dawson to meet the President. After my appointment, Mr. Dawson told me that top personnel matters at RFC should be cleared through the White House. Because he was the only White House official I knew, I assumed that meant such matters should be cleared through him. As will be noted later herein, I subsequently contacted him on other matters (record of hearings, p. 1305).

Mr. Dunham understood the words "top personnel" to mean managers of all field offices, examiners, and secretaries (record of hearings, p. 1315). As previously noted in the case of E. Merl Young, Mr. Dunham also considered as "top personnel" White House favorites in the employ of RFC borrowers. In his testimony, Mr. Dunham conceded that Mr. Dawson might have asked that top personnel of the RFC be cleared through the Democratic national committeemen rather than the White House (record of hearings, p. 1315).

Another condition of Mr. Dunham's appointment was revealed in this testimony:

> Mr. DUNHAM. One of the questions involved in my employment was whether I could work in harmony with the Democractic Party.
> Senator CAPEHART. Did they ask you point blank if you thought you could work in harmony with the Democratic Party?
> Mr. DUNHAM. That is right.
> Senator CAPEHART. And you told them you could?
> Mr. DUNHAM. I told them I could work in harmony with anybody (record of hearings, p. 1318).

Mr. Dunham later gave ample proof of his ability to work in harmony with Donald Dawson, William Boyle, Jr., and officers of the Democratic National Committee. The surprising fact is that Mr. Dunham was so naive as to believe that the administration had a right to pledge him to cooperate with the Democratic Party. The following appears on page 1318 of the record of the hearings:

> Senator CAPEHART. How could you have said that, knowing that RFC was an independent agency, knowing it was a bipartisan board, and knowing that they had no more right to make that statement to you than any other citizen in the United States?
> Mr. DUNHAM. I do not know that they had no right to make that statement to me, Senator.

Having passed the White House test for appointment as a Republican to the RFC Board of Directors, Mr. Dunham was named for the vacancy which occurred less than a year later. Neither of the two Republican Senators from Michigan was consulted.

Mr. Dunham's prepared statement gives this evaluation of the motives of some of the men who are described in the third interim report of the subcommittee as having influenced RFC lending policies:

> I found, soon after taking office, that Mr. Dawson, Mr. Young, Mr. Windham, Mr. Jacobs, and Mr. Willett were all close friends and that I was obviously regarded as a new member of their social group. I knew that Mr. Jacobs was active in the Democratic Party and had some degree of White House entree. My impression was that the group was solely interested in the welfare of the Truman administration and that any RFC interest they had was along this line (record of hearings, p. 1305).

Mr. Dunham's prepared statement also says:

> I did discuss the Kaiser-Frazer loan with Mr. Jacobs and Mr. Young. Again I regarded their interest as solely that of men with a concern in the well-being of the RFC. Neither ever recommended any specific action in regard to the loan, or showed any personal interest (record of hearings, p. 1308).

When questioned in relation to the above statements, Mr. Dunham said:

> I mean that they were an indoctrinated political group that did not intend to hurt the RFC but intended to protect, as far as possible, the Truman administration (record of hearings, p. 1325).

Apparently, it did not occur to Mr. Dunham that the welfare of the Truman administration and the welfare of the RFC were mutually incompatible.

The connection of Mr. Bevan, the Democratic national committeeman of Michigan who recommended Mr. Dunham's appointment, with the Kaiser–Frazer loans was not fully explored by the subcommittee. The following paragraph is from Mr. Dunham's prepared statement:

> In regard to Mr. Bevan, he did contact me in his capacity as a lawyer in regard to certain property titles which he was engaged to certify as a part of the loan formality. I do not recall ever discussing with Mr. Bevan the wisdom of the Kaiser-Frazer loan or the conditions thereof. Certainly, Mr. Bevan knows he would have no influence with me on such matters (record of hearings p. 1308).

Mr. Bevan testified that his only purpose in discussing the Kaiser-Frazer loan with Mr. Dunham was his interest in the welfare of some 15,000 Kaiser-Frazer employees in Detroit (record of hearings, p. 701). He denied that his own economic welfare was involved. However, after the Kaiser-Frazer loan was approved by the RFC, Mr. Bevan was retained to represent the company in legal matters not related to the RFC loan. The record does not indicate that Mr. Bevan did any legal work for Kaiser-Frazer prior to Mr. Dunham's appointment to the Board.

Mr. Dunham does not appear to have become disillusioned with the Washington influence peddlers until the fall of 1950. In 1949 he attended the Jefferson-Jackson dinner in Washington as the guest of Mr. Bevan (record of hearings, p. 703). Mr. Bevan paid $100 for each of the two tickets given to Mr. Dunham. As a Truman Republican, Walter Dunham had reached the pinnacle of success.

Mr. Dunham summarized his RFC experiences in these words:

> Looking at it in retrospect, I am afraid that it stands as a sad history of a businessman so naive and uninformed as to assume that the experiences of a private banker over 30 years were sufficient to understand and cope with the political atmosphere of Washington (record of hearings, p. 1304).

Many times in the course of the subcommittee hearings we were moved to pity by the pathetic figure of Walter Dunham—an essentially honest, but hopelessly naive, individual caught in the vortex of Pendergast politics. There are some who say that the American people, like Mr. Dunham, are too naive and uninformed to understand the malodorous political atmosphere of Washington. We do not share that view.

### ANOTHER TRUMAN REPUBLICAN

Walter E. Cosgriff of Salt Lake City, Utah, became a Republican member of the RFC Board of Directors on October 12, 1950. By

this time, of course, the subcommittee's investigation of the RFC was well under way. The record contains no evidence which connects Mr. Cosgriff, even remotely, with the interlocking web of influence described in the subcommittee's third interim report or with the Democratic National Committee.

Mr. Cosgriff described himself as a "lifelong Republican who has never voted for or supported a Democratic Presidential candidate" (record of hearings, p. 1650). When asked by Senator Fulbright if he had ever supported any Republican senatorial candidate, he said that he had supported "all of them," the only exception being the late Senator William King (record of hearings, p. 1650). It was developed later in the testimony of Donald Dawson that the appointment of Mr. Cosgriff was recommended by the then Democratic Senator from Utah, Elbert Thomas. Senator Arthur V. Watkins was Utah's only Republican Senator at that time.

Mr. Cosgriff drew a distinction between supporting senatorial candidates and making contributions to their campaigns. When asked if he had made contributions to senatorial candidates, Mr. Cosgriff said he had contributed to the campaigns of former Senators Wheeler, Nye, and D. Worth Clark (record of hearings, p. 1651). Mr. Cosgriff denied making any contributions in the 1950 election outside the State of Utah (record of hearings, p. 1651).

On pages 1657 and 1658 of the record this colloquy appears:

Senator FULBRIGHT. I had heard a rumor that you had made a contribution in the last election to a Democratic Senator's campaign on the eastern seaboard; is that not correct? Are you sure about that? I just wanted to clear it up, because I heard that rumor.

Mr. COSGRIFF. I think that is right. Here is what I remember: Senator Wheeler said he had two or three friends of his who were worthy men that he would like to help out, and asked if I would join him in a contribution, and I told him I would, and I gave him, I think it was $300, but who he contributed to I do not know.

When Senator Fulbright reminded Mr. Cosgriff that a Democratic Senator had been working for his confirmation, this testimony was developed:

Mr. COSGRIFF. Senator, I think you are referring probably to Senator Benton, and he was instrumental, so he said, or at least I asked him about it, and he did not deny it, with getting me to accept the job. Now, if he has spent some time or done some work in my behalf, why, that is fine, but I certainly did not ask him to go to work in my behalf.

Senator FULBRIGHT. You did not contribute to his campaign?

Mr. COSGRIFF. Oh, again, I must admit—yes, I did contribute to his campaign. I am sorry about that (record of hearings, p. 1658).

Like Mr. Dunham, Mr. Cosgriff also talked with Donald Dawson prior to his appointment. Apparently he satisfied the Truman definition of a good Republican.

### THE FOUNTAINHEAD OF FAVORITISM AND INFLUENCE

As Democratic National Chairman and the close friend and adviser of President Truman, William M. Boyle, Jr., is the most powerful political figure in Washington. National political committees are permanent fixtures in our present two-party system. Government regulation of national committees is potentially, at least, extremely dangerous to the free exercise of political thought and activity.

It is most unfortunate that for the first time in the history of this country serious thought must be given to Federal regulation of

national committees. But inasmuch as certain elements of the Democratic National Committee of the Truman administration have not consistently adhered to an honorable code of political conduct, the delicate question of Federal regulation must be faced.

We urge the Senate Judiciary Committee to give careful consideration to the Byrd bill, S. 1978, to prohibit members and employes of national political committees from attempting to influence the decisions of government departments and agencies.

On page 12 of the subcommittee's third interim report the following appears:

> The entries in Dunham's office records indicate it was his practice to discuss the affairs of RFC freely with representatives of the Democratic National Committee, and to give special attention to matters in which the committee was interested.

Excerpts from the diary of Mr. Dunham briefly noting the date of his conversations with Mr. Boyle and his assistants at the Democratic National Committee fill eight closely printed pages of the record (record of hearings, pp. 1389–1397). Mr. Dunham admitted that all of his telephone calls were not recorded in his diary, although there is no doubt that he tried to keep a complete record. These eight pages noting luncheons, appointments, and telephone conversations with officials of the Democratic National Committee cover a period of a little more than 1 year. Mr. Dunham was only one of five RFC Board members. The RFC is only 1 of more than 60 Government departments and agencies. If telephone calls to other departments and agencies by Mr. Boyle and his assistants had the same magical effect as they did on the RFC, the proportions of this influence racket defy description.

Several weeks ago the St. Louis Post-Dispatch charged that Mr. Boyle had used his influence to secure a $565,000 RFC loan for the American Lithofold Corp. Mr. Boyle has vigorously denied these charges. President Truman has given Mr. Boyle the same endorse ment extended in the past to all the other honorable men around him who have been accused of unethical conduct.

We do not wish to prejudge the facts in this latest charge of misconduct. Certain facts, however, have not been denied.

The American Lithofold loan application was denied three times by the head of the RFC St. Louis office. James P. Finnegan, a close friend of Mr. Boyle, was a stockholder in the company, and, until recently, collector of internal revenue in St. Louis. Mr. Finnegan tried to use his influence toward obtaining the loan. He was unsuccessful.

E. Merl Young then advised the head of the RFC office in St. Louis that the Democratic National Committee in Washington was interested. The loan application file was then forwarded to Washington and by a three to two vote approved by the RFC Board of Directors. Mr. Boyle was counsel for American Lithofold, a close friend of its president, R. J. Blauner, and a close friend of Mr. Young and Mr. Finnegan. Mr. Boyle received legal fees from the company after the loan was granted.

Mr. Boyle's version of the story, as reported, is that he had "nothing to do with the preparation of the application." He claims that the fees received from American Lithofold were for legal services not

connected with the loan. Boyle also is quoted as stating: "I never discussed the loan with anyone in the RFC."

It seems to us that there is danger in the process of passing judgment on Mr. Boyle of completely overlooking the true nature of the influence wielded in the name of the Democratic National Committee. Of course, Mr. Boyle would not be so stupid as to prepare a loan application for American Lithofold and personally demand that the RFC Directors approve it. It may well be that the fees paid Mr. Boyle represented reasonable compensation for legal services not connected with the loan. It may be that Mr. Boyle did not discuss the loan with anyone in the RFC.

The whole point is that influence might nevertheless have been used effectively. For example, all Mr. Boyle had to do was to ask Merl Young to try to give some help to old friends, R. J. Blauner and Jim Finnegan. Being responsible for the appointment of a majority of the RFC Board and having assiduously cultivated them thereafter, a simple expression of interest to Merl Young could well be all that was required.

Political influence can be outwardly innocent. It is even possible the parties themselves may not be conscious of the fact that it is being exercised.

The following case is in point. Its origin is revealed in these notations in the Dunham diary:

> Wednesday, July 12, 1950: Mr. Bill Boyle's office telephoned. Made appointment for Mr. Leo B. Parker of Parker & Knipmeyer, attorneys, Kansas City, Mo., to see Mr. Dunham at 3 o'clock. Talked with Mr. Dunham re Preferred Accident.
>
> Thursday, July 13, 1950: Mr. Bill Boyle telephoned re possibility of appointing Leo B. Parker to the board of Preferred Accident. Said he was most anxious to become associated with Preferred in that capacity and asked Mr. Dunham to see what he could do toward bringing it about. Mr. Dunham stated that he would start working on it immediately.
>
> Friday, July 14, 1950: Mr. Leo B. Parker, of Kansas City, again called on Mr. Dunham at the suggestion of Mr. Bill Boyle (record of hearing, p. 1390).

We will assume that Mr. Boyle did nothing else in Mr. Parker's behalf. Obviously, Mr. Boyle would deny that these telephone calls constituted political influence. However, they had the same effect as the more obvious types of political pressure.

Mr. Parker was not appointed to the board of Preferred Accident, an RFC borrower. However, Mr. Parker used the entree provided by Mr. Boyle to negotiate for Starrett Television Corp. for the purchase of certain property taken over by the RFC. The RFC awarded the sale of the property to Mr. Parker's client without even taking the precaution of obtaining a routine Dun & Bradstreet report. Had the RFC obtained such a report, it would have known that the owner of Starrett Television, Jacob Friedus, and his father-in-law, Sam Aaron, were under indictment for income tax evasion in the amount of $218,000. At the insistence of the subcommittee the proposed sale was rescinded only a few days before Mr. Friedus and Mr. Aaron were sentenced to prison.

If all the members and officials of a national political committee are actuated by an honorable code of ethics, their consultations with policy-making officials of the executive branch will not be interpreted as the exercise of influence. For such a national committee no Federal regulation is required.

On the other hand, once an administration and its national political committee acquire the reputation of wielding influence and rewarding friends and punishing enemies, even the most innocent sounding telephone call carries tremendous pressure and influence. To prevent influence of this character it would probably be necessary to police all communications between persons representing national political committees and policy-making officials of the executive branch. In the event such legislation were passed, it would soon become apparent that law is not an adequate substitute for sound moral principles.

### THE TRUMAN FIFTH COLUMN IN MISSISSIPPI

William Boyle and Donald Dawson have had little difficulty in recruiting Truman Republicans for the purpose of giving bipartisan boards and commissions a partisan point of view.

The job of finding Truman Democrats in the State of Mississippi proved infinitely more difficult. In spite of the certain loss of patronage, old-line Democrats in Mississippi bolted the national party in 1948.

There were a few individuals in Mississippi, however, so attracted by the prospect of wealth and political power that they were willing to accept the risk of being known as Truman Democrats. The head of this small group of adventurous souls was Clarence E. Hood, Jr. In the summer of 1949 the Democratic National Committee recognized Mr. Hood as national committeeman for the State and he was designated as patronage adviser to Mr. Boyle. Apparently, it was Mr. Hood's plan, with the assistance of Boyle and the national committee, to wean the people of Mississippi from the Dixiecrat movement by the liberal use of patronage and by other practical applications of the principles of Pendergast politics.

The sale of post-office jobs and nonexistent OPS jobs in Mississippi need not be related here. The facts concerning this vicious job-selling racket may be found in the report of the Senate Expenditures Committee issued in June 1951.

Needless to say, however, Mr. Hood did not overlook the RFC in mapping his campaign of political infiltration. Although this scandal was investigated by the Senate Expenditures Committee and not by our subcommittee, it is appropriate, we think, to have all the facts concerning favoritism and influence in RFC loans in one report.

Mr. Hood and one of his associates, Forrest B. Jackson, tried to block an RFC loan late in 1949 on the ground that it would have benefited a "Fascist Dixiecrat organization." They tried to accomplish this through a Mr. Glenn P. Boehm, presumably because of his reputed contacts and influence with officials of the Democratic National Committee. In January 1951, Mr. Hood wrote a letter with reference to a bank his company was suing which reads, in part, as follows:

> Some time ago, Glenn and I were discussing this matter with his friend, Mr. Willett, a director of Reconstruction Finance Corporation, in Washington, and it was his suggestion, inasmuch as it is apparent that we are not going to be able to get a fair and impartial trial in any of the issues in the Mississippi State Dixiecrat courts, that it would be well to refer the entire matter to the comptroller of national banks, with a request for a complete investigation by that agency, looking toward a possible suspension of the charter of the First National Bank, or any other action that might result from an investigation by the Federal agency.

As much as we deplore the scandalous conduct of Messrs. Hood and Jackson, we do not believe that their views on the function of the RFC differed materially from those held by the dominant group within the Democratic National Committee. That viewpoint is best expressed in the following testimony of Mr. Forrest B. Jackson in response to questions asked by Francis D. Flanagan, chief counsel of the Investigations Subcommittee of the Senate Expenditures Committee:

Mr. FLANAGAN. In other words, you felt that the Mississippi Democratic Committee should have been contacted by somebody in Washington concerning RFC loans in this area?

Mr. JACKSON. Yes, sir.

Mr. FLANAGAN. Why did you want to be contacted concerning an RFC loan?

Mr. JACKSON. We were engaged in an effort to try to build back and to revive rejuvenate the Democratic Party associated with and connected with the National Democratic Party in Mississippi, and in order to do that it was essential, as the Democratic Committee in Mississippi saw it, and in line with the usual political practices as they have prevailed in my lifetime, at least, that you had to have some kind of influence and some power and something to build on, if you were going to build the party back in Mississippi that could not receive but 20,000 votes for the presidential nominee of the Democratic Party.

Mr. FLANAGAN. And part of this plan was to have some influence in the granting of RFC loans in this area?

Mr. JACKSON. That is right, sir.

When Mr. Jackson said "in my lifetime," we assume he meant his life after reaching the age of 21. Our guess would be that Mr. Jackson is 49 years old.

## RFC PERSONNEL ETHICS

The evidence put into the record of RFC employees and former employees who capitalized on their positions of trust and authority for their own financial betterment and personal comfort and ease constitutes an indictment of the low moral and ethical internal conduct level to which the Corporation was permitted to plunge.

There is ample testimony to conclude that numerous RFC employees and former employees used their official position to lever remunerative jobs, many in the nature of sinecures, from RFC borrowers or prospective borrowers.

That these persons obtained posts in almost all cases with firms whose RFC loan negotiations had come within their jurisdiction is beyond coincidence. There is every reason to suspect that such jobs constituted pay-offs.

There is indication that threat of disapproval of a loan was used in some instances to obtain for certain RFC personnel high-paying positions for which they were fitted neither by experience nor ability.

Other employees and Federal officials, including at least two White House staff members, have enjoyed free-loading vacations at swank resorts and accepted from RFC borrowers expensive gifts and favors contrary to normal standards of moral and ethical conduct, if not actually contrary to law.

Some of the members of the Board of Directors of RFC, as formerly constituted, appear to have been willing parties to the levering of jobs for RFC employees with borrowers, either by active participation in the setting up of such deals or by failure to take punitive action in the face of certain knowledge.

The subcommittee study has shown that many RFC loan applications were approved by the Board of Directors in the 2 years im-

mediately preceding the reorganization of the agency without any apparent affirmative reason. In point of fact, many applications were approved when persuasive reasons existed for denying such loans.

RFC thus has been exposed to whatever implications may be drawn from these circumstances.

The subcommittee in an earlier report emphasized it had been unable to determine the real reasons for certain loans. This applies to the Texmass loan of $15,100,000 and the $4,000,000 loan to the Waltham Watch Co. Valid reasons may exist. But, if so, they were not presented to the subcommittee.

However, it is a fact of record that subsequent to RFC approval of these loans, RFC employees were hired by these firms at high salaries.

### ALLEN FREEZE

On September 28, 1950—after the RFC had approved the loan to the Texmass Petroleum Co.—Allen Freeze quit his $10,750-a-year job as assistant RFC controller to go with Texmass at $22,500 a year. Mr. Freeze acted for the RFC with respect to the Texmass financing in at least two matters.

Texmass, now called Texas Consolidated Oil Co., recently was involved in a receivership case before Federal Judge John A. Rawlins, of Texas. Judge Rawlins held that Mr. Freeze was ill-suited for his job and that payment of a $22,500 salary to him constituted a waste of assets of the Texmass firm. Judge Rawlins at that time said:

> He (Freeze) is not a professional oil man; he was employed at a salary of $22,500 merely because he was at one time the assistant controller of the RFC, and this was to get along with RFC; and he allowed the loan to become delinquent by failing to file a quarterly report with the RFC. This employment constitutes a waste of assets of Texas Consolidated.

It also has been developed that Mr. Freeze apparently drew a salary from Texmass while still with RFC. On June 18, W. Stuart Symington, newly appointed administrator of RFC under the reorganization, announced, concerning Freeze:

> * * * information has been developed by our investigation office that a former RFC official accepted a salary from a borrower while he was employed by RFC, and carried on business with and for the borrower from his office at the RFC.

### JOHN HAGERTY AND E. MERL YOUNG

John Hagerty resigned as the $10,000-a-year manager of RFC's Boston office to work for the Waltham Watch Co., Waltham, Mass., for $30,000, or triple his previous salary. The Boston office had handled part of the negotiations in connection with the $4,000,000 RFC loan to Waltham.

E. Merl Young, whose web of influence within the RFC is discussed elsewhere in this report, quit as a $7,193-a-year RFC examiner to take a $12,000 job with the Lustron Corp. A few months later Mr. Young, while Lustron negotiated for an additional loan, was made a Lustron vice president at $18,000 a year.

Simultaneously with his Lustron position, Mr. Young drew $10,000 a year from the F. L. Jacobs Co., of Detroit. Both Lustron and the Jacobs firm were RFC borrowers at the time.

Mr. Young is, and has been, closely involved financially with Joseph Rosenbaum, Washington lawyer. Mr. Rosenbaum is a mem-

ber of the firm of Goodwin, Rosenbaum, Meacham & Bailen, mentioned most frequently in the many reports of special influence reaching the committee.

Among the loans Mr. Rosenbaum has made to Mr. Young was one for the purchase of a $9,540 royal pastel-mink coat for the latter's wife, Mrs. Lauretta Young, who until recently was employed as a White House secretary. Mr. Young also "borrowed" $30,000 from the Atlantic Basin Iron Work Co., a firm in which he and Mr. Rosenbaum held a joint stock purchase option. Rosenbaum sold Mr. Young a half interest in the stock option for only $500.

Mr. Young, who rose to his position of influence and affluence from a $1,080-a-year job as an assistant messenger for the General Accounting Office, testified that during his period of employment with Lustron and Jacobs much of his time was spent working with the Democratic National Committee.

On one occasion, Mr. Young testified, he made a trip to the Southwest, to Cleveland and eastern points, on behalf of the 1948 Presidential campaign. Lustron paid his expenses.

Rex C. Jacobs is president of the F. L. Jacobs Co. This firm undertook to finance Mr. Young's entire stake in a wildcat oil well and a substantial portion of his venture into the insurance business.

Mr. Jacobs is a close friend of Mr. Rosenbaum. He has entertained Young and Rosenbaum at his estate in Homestead, Fla. Donald Dawson, too, has been his guest.

### CONFLICT IN TESTIMONY

Testifying under oath, Ross Bohannon, a Dallas attorney, stated Young sought a fee of $85,000—$10,000 in cash and $7,500 a year for 10 years—to get a loan for $18,000,000 for Texmass. Mr. Young, also under oath, denied he had ever made such a proposal.

Both Mr. Young and Mr. Bohannon were resummoned, but neither changed his original testimony. No other conclusion remains but that one of these men deliberately lied, preventing the subcommittee from getting at the true facts.

### HUBERT B. STEELE

Hubert B. Steele, an RFC examiner, was instrumental in approval of $6,300,000 in loans for the Central Iron & Steel Co., a subsidiary of Barium Steel Corp. One month after authorization of the second of two loans, Mr. Steele left the RFC for a $15,000-a-year job with the law firm of Goodwin, Rosenbaum, Meacham & Bailen and Joseph I. Casey, jointly.

Central Iron & Steel was then a client of the Rosenbaum firm. Former RFC director William E. Willett admitted he assigned Steele to the Central Iron & Steel loan after other RFC examiners had recommended against the loan. Had Mr. Steele also disapproved the application the loan application would have been rejected automatically, and could only have been revived under unusual circumstances.

Mr. Steele told the subcommittee he knew that Joseph A. Sisco, board head of the parent Barium Steel Corp., had been expelled from the New York Stock Exchange for "milking" assets of subsidiary companies.

FAVOR FOR A FRIEND

Mr. Willett also admitted he had departed from RFC policy to do a friend a favor in connection with a $300,000 business loan. The friend was C. Edward Rowe, who later became an RFC Director and Vice Chairman. Willett personally assigned an examiner to examine the application of the proposed borrower, the Harrington & Richardson Arms Co. The loan was repaid before Mr. Rowe assumed his RFC post.

Mr. Willett testified he would do the same for any friend. Personal assignment of an examiner by a Director is a departure from accepted procedure.

OTHER EXAMPLES

Numerous other examples were brought to the attention of the subcommittee of RFC employes who resigned to go to work for borrowers:

Sterling Foster, Jr., resigned in May, 1949, as Chief of the RFC Loan Operations Division, and the next month became an executive of the Plywood-Plastics Corps., Hampton, S. C., at $18,000 a year, plus a percentage of the firm's earnings.

James C. Windham, who resigned as an $8,550-a-year assistant to former RFC Director George Allen in February 1947, became treasurer and a director of the F. L. Jacobs Co., previously mentioned.

A. H. Graham quit as assistant manager of the RFC's Richmond, Va., office to work for Baltimore Contractors, Inc., of Baltimore, Md., for approximately $15,000 a year.

Joseph M. Ryan quit as chief of the small-business section of the Helena, Mont., office and went with Custom Tire, Inc., of Billings, Mont., at an annual salary of $7,500 plus $2,500 yearly bonus. Ryan made $4,880 with RFC.

China R. Clarke, resigned in 1948 as manager of the RFC Minneapolis office. A month later he became president of the National Bank of St. Paul at double his $10,000 RFC salary. The RFC had invested in the bank.

Otis Radford, a $4,740-a-year examiner in Detroit, quit and after 1 month went with the Eddy Shipbuilding Co., Keithsburg, Ill., at $10,400 a year, plus a share of the profits.

HILTON W. ROBERTSON

Hilton W. Robertson, RFC loan examiner, admitted that in 1949 he and his family had taken a 10-day, free vacation at the swank Saxony Hotel, in Miami Beach, Fla. Mr. Robertson was instrumental in the Saxony Hotel getting a $1,500,000 RFC loan. The loan has been repaid. Mr. Robertson's favorable recommendation was made after several lower echelon RFC staffers had rejected the loan application.

The owner of the Saxony Hotel is George Sax, multimillionaire reputed "punchboard king."

Mr. Robertson also was the examiner who reversed a lower echelon decision and approved a loan for a second Miami hotel, the Sorrento.

R. M. Rowlands, manager of the RFC Minneapolis office, was relieved of his job in May 1951. RFC Administrator W. Stuart Symington said Rowlands used information obtained from a Govern-

ment employee in another agency to arrange a warehouse rental deal that netted Rowlands a profit of $35,000 at no personal expense.

### GENERAL DETERIORATION

In connection with the general standard of conduct of some RFC employees, this subcommittee noted in an earlier report that upon a selected few examiners in the Washington office appeared by design to have fallen the bulk of cases where loans were made contrary to recommendations of all other participating examiners.

The minority of the subcommittee is of the opinion these actions fit the general pattern of moral and ethical deterioration noted in the Corporation's top management structure.

From its examination of the facts, the minority of the subcommittee is of the further opinion that any personnel reorganization voluntarily undertaken should be implemented by statutory safeguards to prevent future abuses by personnel of the character cited.

### THE RFC AND ROSENBAUM

Throughout the subcommittee's investigation, the Washington law firm of Goodwin, Rosenbaum, Meacham & Balien, and particularly its leading member Joseph H. Rosenbaum, figured in charges of influence in various RFC transactions. Some idea of the extent of Rosenbaum's activities and mode of operation appeared in the subcommittee's interim report issued last February.

As revealed in the interim report, Mr. Rosenbaum was said to have claimed that RFC Directors Willett and Dunham were "in his hip pocket," During public hearings that followed the interim report, Roy Fruehauf, Detroit trailer manufacturer, again, under oath, ascribed this remark to Rosenbaum. On the other hand, Mr. Rosenbaum declared he did not even know Mr. Dunham and to his knowledge had never seen him. His contacts with Mr. Willett, he said, had been few. The testimony of the two men is incompatible.

On another occasion testified to by former RFC Director Harvey J. Gunderson, Rosenbaum reportedly told L. M. Giannini, the California banker, that he (Rosenbaum) had considerable influence over the decisions made by Mr. Willett and Mr. Dunham.

In February 1950, according to Carl Strandlund, the president of Lustron Corp., Mr. Rosenbaum met the representatives of a committee of Lustron stockholders. Mr. Strandlund, concerning that meeting, testified:

> In the course of the conversation, Mr. Rosenbaum mentioned that he was well informed with reference to the Lustron picture: that he was closely connected with Mr. Willett; and had been called upon by Mr. Willett for advice and assistance in connection with Lustron matters on several occasions.

Other witnesses in the reopened hearings bore out Strandlund's testimony that Rosenbaum claimed to have influence with RFC.

Mr. Rosenbaum denied this, in the face of a preponderance of sworn testimony to the contrary.

Mr. Rosenbaum was an intimate of E. Merl Young, former RFC examiner, also deeply involved in the charges of influence. Mr. Rosenbaum's law firm and officials of the F. L. Jacobs Co. of Detroit financed Mr. Young's insurance business.

Subsequent hearings developed that Mr. Rosenbaum bought an option on stock of the Atlantic Basin Iron Works and then sold one-half the option for $500 to Mr. Young. Shortly thereafter, Mr. Young, as an option-holder, borrowed some $30,000 from Atlantic Basin, or the corporation holding its stock, for the purchase of a $52,000 home.

Mr. Rosenbaum described to the subcommittee one steel transaction involving Atlantic Basin Iron Works. The deal netted $75,000 to $80,000 in profits, although Atlantic Basin never did have the merchandise—2,500 tons of steel plate—in its possession. The steel may have found its way into the black market.

In another transaction, Mr. Young borrowed $8,540 from Mr. Rosenbaum to cover the purchase price less discount of a $9,540 mink coat for his wife. Mr. Rosenbaum had represented the furrier-seller of the coat in obtaining approval of a $175,000 RFC loan. The money was not disbursed, however. Mr. Young testified that he had nothing to do with this loan.

Mr. Rosenbaum has been closely associated with Rex C. Jacobs, alleged to have influenced RFC Director Dunham's decisions. Mr. Jacobs has recommended employment of Mr. Rosenbaum's firm to persons wanting to do business with RFC and has entertained Mr. Rosenbaum at his (Jacobs) Homestead, Fla., estate.

Mr. Rosenbaum's firm entered the RFC loan transactions with Central Iron & Steel, a subsidiary of Barium Steel Corp., the latter corporation a member of a group of companies which are clients of the Rosenbaum law firm.

A total of $6,300,000 in loans to Central Iron & Steel was authorized by the RFC Board, over the objections of all lower RFC examiners with the single exception of the substitute examiner, Hubert B. Steele. Mr. Steele had been substituted by RFC Director Willett. One month after the second loan was authorized, Mr. Steele left RFC and was employed by Goodwin, Rosenbaum, Meacham & Bailen and Joseph E. Casey, jointly. Mr. Steele received a payment of $5,000 on the day he reported for duty, Mr. Rosenbaum explained that the $5,000 payment was for 4 months' salary in advance.

According to a memorandum from former RFC Director Gunderson to former Chairman Hise, Mr. Rosenbaum also approached Edgar Kaiser, president of Kaiser-Frazer, through L. M. Giannini. Kaiser-Frazer was a big RFC borrower. Mr. Rosenbaum, according to the memorandum, claimed to have influence over the decisions of Dunham and Willett. For this reason, he claimed he would be able to negotiate more advantageous terms for the Kaiser-Frazer loan than the borrower could otherwise obtain. The allegations were confirmed by Edgar Kaiser and Chad Calhoun of the Kaiser enterprises, who noted that the assistance offered had been declined by them.

Lesser RFC officials have sometimes found the Rosenbaum fees to be excessively high for the work done by the firm. In the case of a $1,400,000 loan to National Union Radio Corp., a fee of $15,000 was agreed upon between attorney and client, and a fee of $5,000 was the maximum which RFC's New York office would approve for that part of the work it reviewed. Because the loan was repaid before maturity, approval of the fee never came to a final decision.

Not the least of Mr. Rosenbaum's ventures, revealed during the subcommittee's hearings, involved the sale of Government tankers

in a bold deal engineered by former Representative Joseph E. Casey. Details of the transaction are described elsewhere in this report. Mr. Casey, Mr. Rosenbaum, and others put up a total of only $100,000 for a deal that profited $2,800,000.

Mr. Rosenbaum made a sweeping denial before the subcommittee of all charges of influence contained in the interim report against him and his law firm.

The minority of the subcommittee is unable to square the statements of Mr. Rosenbaum with that of other witnesses and makes note that his testimony stands alone against the preponderance of testimony by other witnesses.

It appears from the conflicting statements in the record that considerable confusion exists on the meaning of "influence." Persons in high places minimized the importance attached to their positions. They allowed those who "know the ropes," as Mr. Rosenbaum and others obviously did, to have direct entree to RFC personnel. The former RFC Board of Directors' tolerant attitude toward personal favoritism only encouraged influence tactics. In such an atmosphere government becomes not one of law but one of men.

## Joseph E. Casey

One further aspect of the subcommittee's hearings deserves mention—the highly profitable Government tanker deal engineered by Joseph E. Casey, Washington lawyer, and formerly United States Representative.

Although not directly related to the RFC inquiry, the incident serves to illustrate how specialists in Washington know-how can capitalize on the soft spots in Big Government. In this case the soft spots appeared in the tax laws of the United States.

It is noted for the record that Mr. Casey voluntarily requested opportunity to testify after publication of your subcommittee's interim report on favoritism and influence in RFC.

Mr. Casey related that he also handled some Maritime Commission and tax cases. He described one ship-sale transaction in which he and his associates put up $100,000, obtained a loan of $10,000,000, although the group then owned no ships, and turned the $100,000 investment into a $2,800,000 profit. Among his associates in this deal were Joseph H. Rosenbaum, Admiral William F. Halsey, American Minister to London Julius C. Holmes, and the late Edward R. Stettinius, Mr. Casey related.

These men formed American Overseas Tanker Corp. which bought five tankers from the Maritime Commission for $1.5 million to $1.7 million each. Casey said American Overseas turned the ships over to a second corporation, the Greenwich Marine Corp. also owned by themselves and incorporated in Panama, which chartered them to Standard Oil. The oil company, he explained, paid charter fees to Greenwich, which, as a Panama corporation, paid no income tax. Greenwich, in turn, paid Overseas only the amount of interest on the debt and other costs which were tax-free.

In the end, Casey testified, charter fees paid off most of the loan and he and his associates sold Overseas at a profit of $2,800,000, of which his share was $270,000 (Casey had invested $20,000). No income tax

was paid on the charter receipts, Casey said, and only the 25 percent capital gains tax on the proceeds of the sale applied.

After his original disclosures, Casey was reluctant to talk about the tanker deal. He challenged the authority of the RFC subcommittee to inquire into the matter. For its part, the subcommittee felt another committee would be better equipped to pursue the case and turned over its information on the tanker deal to the Senate Executive Expenditures Investigating Subcommittee, which is currently looking into the transaction. Further comment by this subcommittee would be ill-advised.

## Specific Loans—A Review

Charged with the duty of exploring the manner in which the Reconstruction Finance Corporation has operated under terms of the basic law governing RFC and under the spirit and intent of the Congress, the subcommittee studied in detail 35 individual instances where the RFC has lent public moneys.

At all times, the criteria used by the subcommittee were those spelled out in the basic law and in recommendations of the committees that considered these laws prior to their enactment.

Section 4 (a) of the Reconstruction Finance Corporation Act of 1948 sets forth the business-lending powers and purposes as follows:

1. To aid in financing agriculture, commerce, and industry.
2. To encourage small business.
3. To help in maintaining the economic stability of the country.
4. To assist in promoting maximum employment and production.

It is the view of the minority of the subcommittee that the records of RFC should affirmatively show in what manner, and for what reasons, the making of a particular loan will "aid in financing agriculture, commerce, and industry," or "encourage small business,"—"help in maintaining economic stability," and/or "assist in promoting maximum employment and production."

Existing RFC records are deficient in this respect.

Unless there is a convincing showing that the particular loan under consideration will accomplish such purpose, there is no basis for public assistance through the RFC and no authority in the RFC to loan public funds to the borrower.

Section 4 (b) of the act sets forth restrictions and limitations on these broad powers. It specifies no loans shall be made—

unless the financial assistance applied for is not otherwise available on reasonable terms * * *. All securities and obligations purchased and all loans—

Except flood and catastrophe loans—

* * * shall be of such sound value or so secured as reasonably to assure retirement or repayment.

There are numerous restrictions as to amount, terms, conditions, etc., of the loans.

There is a further restriction that no RFC employee, directly or indirectly, shall participate in any question affecting his personal interests or affecting any firm in which he is interested. Obvious deviations from the intent of the law in this respect are discussed elsewhere in this report.

Still another control on the general conduct of RFC is the statement contained in Senate Report 974 (80th Cong., 2d sess.) by the predecessor of the present RFC subcommittee:

> In deciding whether to grant a loan, the primary consideration should be the interest of the general public rather than the interest of the individual borrower. * * * The committee believes that RFC should not engage in lending of a purely private character where the benefit to the general public is remote, whether the loans be large or small.

As this subcommittee said earlier (and the full committee concurred in S. Rept. 1689, 81st Cong., 2d sess.) this test was not intended to add to the lending powers of the Corporation. It was not intended to minimize or weaken the statutory restrictions and limitations.

It was intended as an additional limitation to be considered and applied only when a loan had otherwise qualified for assistance from public funds by coming within the statutory purposes and powers and meeting the test of the statutory restrictions.

In other words, after a loan has clearly qualified under the statute then, and then only, should the question of public interest be raised.

The test of public interest is a broad one, susceptible to many varities of meaning. Used as an additional reason for granting a loan, it would serve to expand the Corporation's authority immeasurably and preclude any clear accounting for the exercise of such power.

The minority of the subcommittee is disturbed that in the Corporation's official statements to the subcommittee, and in the testimony of RFC officials, the concept of public interest seems to have been employed as an addition to the statutory lending powers.

Where there is doubt that a particular loan comes within the RFC's statutory lending powers, that doubt should be resolved in favor of the United States Government and the loan declined. The possibility that the borrowing enterprise might indirectly benefit the entire nation (as was held by certain RFC officials in the Texmass oil case) should not override the primary requirements of basic law.

The Reconstruction Finance Corporation enjoys a rather autonomous position as compared with the regular departments of the executive branch. This autonomy should in no way be construed by RFC as relieving it of ultimate accountability to the Congress and to the people. Rather, it is more than ever incumbent upon the RFC to conduct its operations in a most circumspect manner.

There is no excuse for the RFC to get involved in financial transactions with persons or firms engaged in questionable enterprises. In this respect, testimony before the subcommittee amply shows that the lower-level staff members of RFC exercised more prudent judgment than the former Board of Directors in the cases studied. In fact, in some instances, the Board of Directors displayed a regrettably callous attitude, even refusing to take cognizance of facts developed in the course of the subcommittee's hearings. Despite recommendations contained in the subcommittee's interim reports, the Board of Directors, as formerly constituted, continued to pursue their own course, without giving any compelling reason—indeed, on occasion, giving no reason—why they should disregard the wishes of Congress.

The RFC Board's indifference leaves the minority of the subcommittee no alternative except to conclude that the Board was unduly influenced by Donald Dawson, William M. Boyle, Jr., and others, as discussed more fully elsewhere in this report.

The subcommittee hearings disclosed numerous instances where the Board overruled its own staff experts—without any affirmative arguments to support the Board's action. Loans were granted on highly speculative, risky enterprises. Once committed to such an enterprise, the Board apparently felt that although the first loan went sour, additional loans would bail out the enterprise, and thereby take the Board off the spot. Instances were uncovered where the Board of directors and certain lower echelon personnel allowed personal favoritism to color their actions. In certain loans, the interests of the borrower and the RFC personnel were so intermeshed that the question of public interest seemed to be squeezed out of the negotiations.

The Board on occasion broke away from normal procedures in loan negotiations. Contrary to regular practice, certain Board members hand-picked examiners to review particular loan applications. It may have been coincidence that these examiners recommended that loans be approved whereas other examiners and the reviewing committee had turned thumbs down. In some cases, the RFC Board of Directors displayed ignorance of the elementary facts involved in million-dollar transactions.

The minority of the subcommittee is well aware that honest mistakes may be made. It also recognizes there are honest differences of opinion in interpreting powers granted by law.

Certain cases discussed in this report cannot be written off as honest mistakes. They stand as indictments of the people whose bad judgment was involved. They stand as warnings to other Government employes entrusted with management of public funds.

For the record, the minority of the subcommittee wishes to cite the pertinent facts of several of these cases. Fuller details, along with recommendations made by the subcommittee, will be found in the interim reports mentioned in the following paragraphs.

### TEXMASS PETROLEUM CO.

March 30, 1949, the Texmass Petroleum Co. applied at Dallas, Tex., for a loan of $22,500,000 from the Reconstruction Finance Corporation, later reducing the application to $18,950,000. The loan was to be used to acquire properties and to pay debts and for working capital.

From the time it was first organized, Texmass had been burdened with the debts incurred by its predecessor. Moreover, the venture was highly speculative and risky by its very nature.

Under these circumstances, the Dallas agency examiner recommended decline of the loan. The agency review committee concurred. On June 22, 1949, the Dallas advisory committee and agency manager recommended a loan for $15,925,000.

The Board of Directors of RFC employed M. M. Garrett, a geologist, to estimate the value of the property offered as collateral. Based on Garret's report, Texmass filed a supplemental application. The loan agency examiner reviewed the supplemental application and again recommended that the loan be declined. The review committee recommended that the loan be made. The manager and the advisory committee recommended a loan of $15,638,513.

The Washington loan examiner recommended decline of the loan from a credit standpoint. The five-man Washington review committee unanimously recommended decline.

Yet, September 29, 1949, the Board of Directors adopted a resolution approving a loan of $15,100,000 upon certain conditions. Directors Gunderson and Dunham voted for the resolution. Director Willett opposed it. Chairman Hise was present but disqualified himself. Director Mulligan was absent because of illness.

The plan of Texmass called for the acquisition of certain outside oil properties and the working interest of individual investors in Texmass Petroleum Co. acreage. Since these were to be bought in part by the issuance of securities, it was necessary to register the proposed securities with the Securities and Exchange Commission. Following SEC procedures, Tell T. White, petroleum engineer and geologist for the SEC, made an evaluation of the company's oil reserves. White's evaluation was substantially lower than that of M. M. Garrett, the RFC petroleum engineer. Learning this, RFC asked Texmass to get the opinion of another petroleum engineer. C. H. Keplinger, approved by RFC, was employed by Texmass and submitted his report March 6, 1950.

The original resolution adopted by the Board provided that the commitment for a loan would expire 60 days later. From time to time extensions of time within which the borrower might fulfill the conditions of the loan resolution were made.

These extensions continued to be made in spite of the information obtained subsequent to adoption of the original resolution.

This information included the lower evaluation of Texmass oil reserves made by SEC and the opinion of the Comptroller General of the United States, who advised the RFC subcommittee that unless additional evidence refuted the facts before him he would report the Texmass loan to be a transaction without authority of law. Other important findings disclosed by the subcommittee's hearings apparrently were disregarded in granting further extensions of time to Texmass.

On the basis of its study of the RFC loan to Texmass, the subcommittee (and the full committee concurred) made the following findings and conclusions: [1]

1. It is evident that the Board of Directors of RFC gave only casual and superficial consideration and study to the Texmass Petroleum Co. loan. Those directors who approved this loan, and extensions thereof, disclosed inadequate knowledge of the significant facts and features of the Texmass Petroleum Co. loan. They overruled the findings and recommendations of their own review committee without persuasive evidence justifying such action.

The lending of public funds is a function requiring at least an equal degree of care with that desirable for the protection of the investing public. The record shows that the SEC scrutinized the significant facts pertaining to Texmass far more thoroughly and effectively than did the RFC Board of Directors.

The directors of the RFC were remiss in their duty both in failing to avail themselves of the full facts obtained by the SEC and in failing to give adequate weight to those facts.

2. The primary consideration of the Texmass Petroleum Co. loan was not the interest of the general public. On the contrary, it was primarily a bail-out of existing creditors of the borrower.

[1] S. Rept. 1689, 81st Cong., 2d sess.

3. The RFC failed to convince the subcommittee that this loan is of the character intended by Congress to be made under the authority of the Reconstruction Finance Corporation Act of 1948. The RFC did not make an affirmative showing that the loan will (as prescribed in the act) "encourage small business," "help in maintaining economic stability of the country," and "assist in promoting maximum employment and production," to the extent necessary to justify disbursement of public funds "to aid in financing agriculture, commerce, and industry."

4. The Reconstruction Finance Corporation did not establish that financial assistance to the Texmass Petroleum Co. was "not otherwise available on reasonable terms" (as required by the act). The subcommittee held that the venture was of such speculative nature that financial assistance should have been provided, in part at least, by risk capital from private sources.

5. The Reconstruction Finance Corporation did not show that the loan is of such "sound value or so secured as reasonably to assure retirement or repayment" (as required by the act).

In all fairness, the minority of the subcommittee states that since the subcommittee interim report on Texmass, a number of top management resignations have occurred, a competent oil man has been brought in to direct operations, and Texmass appears to be meeting its agreement with RFC. This turn of events does not detract, however, from the subcommittee's original criticism that RFC did not exercise sufficient care in granting the loan in the first instance.

Allen Freeze, RFC assistant conptroller, quit his RFC post to accept a $22,500 job with Texmass. Mr Freeze acted for the RFC with respect to the Texmass loans in at least two matters, as discussed elsewhere in this report.

## LUSTRON CORP.

The Lustron Corp. was formed for the purpose of engaging in the manufacture of prefabricated enameled steel houses. It had a paid-in capital in case and tangible and intangible property of $1,700,000 and received a series of loans from the Reconstruction Finance Corporation totaling $37,500,000.

Thus, for every dollar risked by Lustron stockholders, 22 taxpayer dollars were risked by RFC.

The first Reconstruction Finance Corporation loan to Lustron was approved June 30, 1947. Subsequent amounts were loaned from time to time, the last of which was disbursed September 13, 1949.

No attempt was made by the subcommittee to consider the advisability of the initial loan to Lustron Corp. or the question of the general administration and servicing of the loan.

What the subcommittee did study was the arrangements made by Lustron for the transportation of completed houses and the role the RFC played in this transaction. Specifically, the inquiry was touched off by a preliminary report of the Investigation Division of the RFC on the transportation dealings between the Lustron Corp. and the Commercial Home Equipment Corp. This report charged that Commercial Home Equipment Corp. had fraudulently overbilled Lustron Corp. for transportation services in an amount exceeding $500,000 and that Lustron Corp. had paid such overcharges.

On the basis of its exhaustive study of the transportation contract the subcommittee concluded among other things that: [2]

1. The representation that 200 tractors had been furnished under the contract with Lustron was "not true."

2. The RFC was ineffectual in its supervision of the transportation phase of the Lustron operation, which involved a substantial portion of the 37½ million dollars of public funds loaned by RFC.

3. RFC representatives charged with the duty of protecting the public funds loaned to Lustron exhibited inability to detect irregularities and an indifference to unbusinesslike procedures in dealings related to transporting Lustron products from factory to home site.

4. Officials of Lustron and RFC were aware that a director of Lustron was also a stockholder and director of Commercial Home Equipment Corp. and that this director actively conducted transportation negotiations between the two corporations. These Lustron and RFC officials were remiss in their duties through their tacit approval of such practices and through their failure to scrutinize these arrangements rigorously.

The RFC foreclosed on Lustron's mortgage last fall for nonpayment of $36,500,000 of the debt. Carl Strandlund, president of the bankrupt firm, subsequently requested RFC to call off its foreclosure suit and lend him $3,500,000 to reorganize the plant for a fresh start, this time in the defense housing field. On March 29, however, RFC Chairman Elmer Harber, announced that he had signed papers transferring the Lustron plant at Columbus, Ohio, to the Navy. RFC action followed the January order of the Defense Production Administration that the plant be turned over to the Navy for aircraft assembly.

In one way or another the bulk of the equipment and facilities has been disposed of by the receivers and by the Navy. Litigation between Lustron and RFC at Columbus, Ohio, is at an end, although RFC still has litigation against Strandlund for his personal guaranty on the first loan. In the bankruptcy suit in Chicago, RFC's position is that of creditor.

E. Merl Young, discussed elsewhere in this report, quit as a $7,193 RFC examiner to take a $12,000 a year job with Lustron after the corporation had obtained RFC money. Mr. Young simultaneously drew $10,000 a year from another RFC borrower, the F. L. Jacobs Co., of Detroit.

### WALTHAM WATCH CO.

Waltham Watch Co., which had suffered sizable operating losses for three consecutive years, applied to RFC for a direct, 10-year loan of $4,500,000. Decline of the loan application was recommended at all levels in RFC. In December 1948, Waltham filed a petition for reorganization and the court appointed trustees.

Meanwhile, considerable sentiment appeared to be building up in New England for the continuation of Waltham Watch Co. In view of this interest, the Boston loan agency manager, John J. Hagerty, urged that interim loans be made to the reorganization trustees. Emergency loans of $2,850,000 were made, of which $1,800,000 was disbursed. A major portion of disbursements went to pay Waltham's bank indebtedness.

[2] S. Rept. 1689, pt. 2, 81st Cong., 2d sess., August 11, 1950.

Agency Manager Hagerty then made a comprehensive analysis of the situation in a memorandum to RFC Director Harley Hise. Hagerty stressed that money alone could not solve Waltham's problems; managerial reforms had to be made. A reorganization plan was said to be forthcoming, whereupon RFC authorized a loan of $6,000,000, 10-year maturity, of which $2,000,000 was earmarked for the purchase of new machinery and the balance for debt payment and working capital. A condition for RFC lending was the immediate raising of $2,000,000 outside capital and subscriptions for $2,500,000. Efforts to comply with this condition failed, and the RFC Board was urged to modify the loan requirements, Hagerty being among those who worked for continued RFC aid. Less than 2 months after the loan was authorized Hagerty was named president and general manager of Waltham Watch Co. at a salary three times that he received at RFC.

Under the terms of the Board's resolution authorizing the loan, no disbursements could be made until Waltham left the jurisdiction of the court as a reorganized firm. This occurred in September 1949.

Despite RFC aid, the company's condition continued to be strained and additional loans were requested ($4,000,000 had already been disbursed out of the $6,000,000 earlier authorized.) The Board declined the additional request, the plant shut down in February 1950, and the Boston RFC agency became mortgagee. The RFC attached $500,000 of Waltham cash as security on the $4,000,000 disbursement.

The same month a reorganization petition was filed and, upon acceptance by the court, the same trustees were appointed. The Federal district court in Boston issued an order requiring RFC to release the funds. RFC, which did not approve the reorganization plan, turned over the $4,000,000 inventory but declined to release the cash. The trustees turned back the inventory on the grounds that the company could not resume production without the cash, too.

Next, the Federal district court fined RFC $50,000 for contempt for failure to surrender the $500,000 collateral cash and for "interfering by the use of a telegram with the ability of the Boston office to comply with the order."

This court action was later vacated and on the basis of the same contempt finding a compensatory fine of $50,000 was levied against RFC. In this way the $50,000 would go to Waltham Watch Co. The court also authorized the company trustees to borrow up to $1 million on trustees' certificates of indebtedness.

Shortly thereafter the RFC and Waltham trustees reached agreement on a way out of the dilemma. RFC complied with the court's order to turn over the cash as well as the inventory. The court vacated the order finding RFC in contempt and remitted the fine levied against RFC. Within a week the court ordered Waltham trustees to turn over a considerable sum to RFC for the purpose of reducing its indebtedness. By now Waltham's indebtedness has been reduced to $1.5 million, and RFC has a mortgage on the fixed assets. This represents an improvement in Waltham's financial position (which is still in bankruptcy under chapter 10) as well as an improvement in collateral held by RFC.

The Waltham loan is an example of the pitfalls involved when Government goes into direct lending. Unlike private lending agencies,

which must make sound loans or perish, the RFC has shown no such compelling concern since it is underwritten by United States taxpayers. One of the reasons Congress wrote restrictions into the RFC Act was to prevent Government lending from becoming operation unlimited.

As the Hoover Commission declared in its Report on Federal Business Enterprises:

> Direct lending by the Government to persons or enterprises opens up dangerous possibilities of waste and favoritism to individuals or enterprises. It invites political and private pressure, or even corruption.

The minority is aware that in the Waltham loan these pressures were not confined solely to the parties in interest, but were regional in character. Outsiders took up the cudgel in the press and otherwise on behalf of the borrower, making difficult dispassionate decision by RFC on the merits of the case. Although such an atmosphere undoubtedly makes RFC's position more difficult, it in no way excuses RFC from observing the statutory requirements and limitations imposed on its powers by the Congress.

### AIREON MANUFACTURING CORP.

In 1947, the RFC Board of Directors approved a loan of $1,500,000 (75 percent of a participation loan of $2,000,000) to the Aireon Manufacturing Corp., a juke box manufacturer. Because of questionable repayment prospects the loan bordered on abuse of the Corporation's authority, as the subcommittee has already declared in an interim report.[3]

Eventually, RFC became the owner of the assets which had been pledged as collateral. In mid-1950 the time appeared ripe for RFC to offer the assets for sale. After reversing itself twice, RFC finally settled upon negotiation, rather than sealed bids, as the method of sale.

At this point, something should be said about Leo B. Parker, who became attorney for one of the prospective Aireon purchasers. By arrangement through the office of the chairman of the Democratic National Committee, Parker, a Missourian, met RFC Director Dunham on July 12, 1950. At that time Parker aspired to be a member of the board of directors of an RFC borrower (an insurance firm). Parker later undertook to negotiate with RFC and particularly with Dunham on behalf of Starrett Television Corp. for the purchase of Aireon facilities.

For some unexplained reason RFC omitted to obtain even a routine Dun & Bradstreet report on Starrett Television Corp., owned by Jacob Freidus and his wife, Claire Freidus. Such a report would have shown that Freidus and his father-in-law, Sam Aaron, were under indictment for income-tax evasion, amounting to $218,000.

Yet RFC had requested and had obtained a Dun & Bradstreet report on New England Industries, Inc., the only other prospective buyer in the final stages of the transaction.

After negotiating the offers, RFC awarded the sale of Aireon properties to Starrett for $700,000 and certain other considerations. It would seem that Parker's introduction to Dunham by the chairman of the Democratic National Committee may have been deemed a

[3] S. Rept. 76, 82d Cong., 1st sess., February 5, 1951, p. 23.

sufficient warranty of the character and financial responsibility of his principal. It would seem also from this fact, and from the details reported in his office records, that Dunham was concerned directly with negotiations of the deal notwithstanding the fact that the necessary details were not at his disposal. Furthermore, this responsibility had been delegated to the manager of the Kansas City loan agency.

On learning that RFC was about to complete the sale, this subcommittee questioned the propriety of the transaction, forcing the RFC Board to reconsider its decision.

The RFC's Investigations Division looked into the matter and found that there was income-tax evasion and that Freidus and Aaron were then on trial in New York. They found that certain other principals in Starrett Television Corp. had criminal records. They also found evidence indicating that the corporation and its principals had made misrepresentations to induce RFC to award the sale to them.

On November 3, 1950, the RFC Board of Directors, composed of three new members in addition to two hold-over appointees, rescinded the action of the previous board. Freidus and Aaron were sentenced to prison a few days later.

Notwithstanding the probability of misrepresentations, RFC did not take at-once action against the purchaser. Section 11 (a) of the RFC Act provides specific penalties for anyone who makes false statements to influence the RFC.

Instead, the Corporation defensively explored the possibility that it might be exposed to litigation if it sought to withdraw from the deal. This conflicted with the advice of RFC's general counsel, who held that the action could be rescinded. In December, the RFC referred the case to the Justice Department, which is still investigating. Although a Federal grand jury is sitting in the District of Columbia on RFC matters, there is a question whether charges of misrepresentation properly fall within its jurisdiction.

Subsequently, Aireon facilities were disposed of at public sale, conducted by Aaron Krock & Co., auctioneers. RFC Director Rowe knew of the auctioneers, who are located in Worcester, Mass., the site of Rowe's business, the Harrington & Richardson Arms Co., discussed elsewhere in this report. Among prospective purchasers whose inquiries were forwarded to Aaron Krock & Co. by RFC were the New England Industries, Inc., the unsuccessful bidder in the previous offering, and Edward Krock, who inquired on behalf of Edward Krock Industries, Inc., of Worcester, Mass. Edward Krock is said to be the brother of Aaron Krock. The minority draws no conclusions from these facts, but cites them to show the crisscrossing of interests in this case.

### RIBBONWRITER CORP. OF AMERICA

The Board of Directors of RFC approved a $400,000 loan to provide working capital for an expanded production schedule for Ribbonwriter Corp. of Florida. The firm was organized to produce a typewriter attachment to permit making one to five copies without the use of carbon paper.

Ribbonwriter Corp. came under examination of the Senate Crime Committee when it was shown that a Florida sheriff, who was alleged

to be an intimate of racketeers Frank Erickson and Joe Adonis, had a substantial interest in the firm. As a result of the hearings, the sheriff was suspended.

The RFC Board of Directors (three members present—no negative votes) granted the loan in spite of the fact that Florida RFC personnel recommended that the loan be declined and that two Florida banks had previously turned down Ribbonwriter's request for funds. The only affirmative recommendation came from the Washington examiner and his opinion was not shared by the Washington review committee.

First disbursement on the loan was made on May 16, 1949. Two months later, Ribbonwriter was placed in involuntary bankruptcy and a receiver was appointed by the Federal court. On March 31, 1950, Ribbonwriter was indebted to RFC in the amount of $313,880. The loan agency on the same date assigned a liquidating value of $150,000 to all collateral held by RFC.

Despite intensive questioning, RFC Board members failed to establish any firm reasons for granting the loan in the face of advice from all but one of the RFC's staff advisers.

### CENTRAL IRON & STEEL

The subcommittee made a study of the circumstances surrounding loans totaling $6,300,000 which RFC made to Central Iron & Steel Co. This is a subsidiary of Barium Steel Corp. As such, it is a member of a group of companies which are clients of the Joseph Rosenbaum law firm, mentioned elsewhere in this report as having special influence with RFC.

Another subsidiary of Barium Steel Corp. had sought financial assistance from RFC some years before. It was turned down because of severe defects in its financial policies and in the financial policies of the parent's principal officials, who made a practice of "milking" the subsidiaries. The same people and the same policies were found to be dominant in Central Iron & Steel Co. Primarily for this reason, its initial application was scheduled for "automatic decline," a process which would have ended in rejection of the application unless theRFC Board interfered by a freak action.

Notwithstanding his knowledge of the earlier unsuccessful applications, RFC Director Willett brought about a substitution of examiners on this case in time to avoid "automatic decline." Two loans were granted, over the objection of all examiners and reviewers with the single exception of the substitute examiner, Hubert B. Steele. Mr. Steele almost immediately left RFC to accept a job with the Rosenbaum law firm.

### CARTHAGE HYDROCOL, INC.

The RFC made three loans to Carthage Hydrocol, Inc. totaling $18,500,000, for construction of a plant to convert natural gas into premium gasoline and other petroleum derivatives. Stockholders of Carthage Hydrocol are mainly oil companies, whose aggregate wealth was estimated at 6 or 7 hundred million dollars. The fact that the owners and developers of the new process felt compelled to come to the RFC for funds rather than to seek the funds from their big oil sponsors drew criticism at the subcommittee's hearings. Considering

the combined wealth of the stockholders, the question arose as to why the additional funds needed by Carthage were not obtained from sources other than the Government.

The name of the Republican National Committee chairman, Guy Gabrielson, was brought into the hearings on Carthage Hydrocol. Attempts were made to charge Gabrielson with influence peddling, although the hearings failed to substantiate the charge.

For example, RFC Director Gunderson declared he had never talked to Mr. Gabrielson, and he knew of no one in the RFC who had talked with him until after the loan was made, at which time he was elected president of the company. Mr. Gabrielson also denied he had tried to influence RFC, pointing out that the loan was negotiated before he became president of the company and before he became Republican National Committee chairman.

### SAXONY HOTEL

The ultra swank Saxony Hotel in Miami Beach, Fla., owned by George D. Sax, Chicago punchboard manufacturing king, received a $1,500,000 loan from Reconstruction Finance Corporation in May 1949. The loan has since been repaid.

The evidence showed that Hilton W. Robertson, RFC loan examiner, recommended that the loan be granted after several lower-echelon RFC staffers had recommended against the proposal. Subsequently, owner George Sax extended an invitation to Robertson to visit the hotel. Although Robertson's visit to the Saxony at the hotel's expense occurred after the loan was granted, he did recommend, after the visit, that George D. Sax be permitted to withdraw $200,000 of RFC funds for payment on Sax's deficient income taxes. Before the subcommittee, Robertson defended his approval on the ground that the RFC loan prevented a foreclosure which would have had a bad effect in the Miami area and probably saved 15 or 20 contractors from bankruptcy.

Taking an opposite view, the Senate subcommittee chairman publicly labeled the hotel loan as a "bail-out" to permit a bank and others to recover money which they had put up for its construction. He insisted that no public interest was served by the transaction.

The final report of the majority, concurred in by the chairman of the subcommittee, does not contain any reference to this transaction.

### HARRINGTON & RICHARDSON ARMS CO.

C. Edward Rowe, who later became an RFC Director, was principal owner of Harrington & Richardson Arms Co., of Worcester, Mass., at the time the company applied for an RFC loan. Local banks had been cool to Harrington and Richardson's request for additional financial assistance. On the basis of the banks' comments the RFC concluded that financial aid was not available to the company from other sources. Ultimately the Board approved a $300,000 2-year loan. After Rowe became an RFC Director the balance of the loan was repaid from proceeds of a loan granted by these same banks.

In this instance the Board of Directors acted in opposition to the advice of all lower levels in the RFC excepting only the examiner for

the Washington office, James O. Hoover. In doing so, the Board made concessions which, ordinarily, under its policies, it would not have made.

Again, the Washington examiner, who made a favorable report, was selected for the assignment by Director William E. Willett. The selection of examiners is not normally made by Directors. It is one of the responsibilities of the Manager of the Loan Division.

C. Edward Rowe began to be mentioned as a candidate for membership on the RFC Board a full year or more before his loan application was filed. For these reasons and because of Willett's intimate contact with Rowe, particularly during the period of the loan negotiations, it seems that the best interest of RFC would have required the careful preparation of an incontrovertible record of arm's-length dealings in this case. No such record was created.

### MAPES HOTEL CORP., RENO, NEV.

With the San Francisco agency manager and the Washington examiner recommending approval, the RFC Board, on October 6, 1949, approved an 8-year loan of $1,300,000 to Mapes Hotel Corp., with a Reno bank participating in the loan. The agency review committee, agency advisory committee, and Washington review committee had recommended that the application be declined.

The loan was made primarily to provide funds for payment of the borrower's indebtedness to banks that had put up part of the money for original construction costs. The subcommittee chairman characterized this as a "bailing out" operation by RFC.

The Mapes Hotel was a swank new building, with the added attraction of a casino on its premises. Leases on the gaming concessions were granted to big-time gambling operators. Notwithstanding the fact that the lessees were known gamblers and the further fact that a substantial portion of the hotel's net profits came from the casino, the loan still was granted. In fact, during the hearings when these facts were disclosed, RFC Chairman Hise defended the loan on the excuse that the RFC had nothing to do with the management of the hotel. Apparently, the RFC held that because the Reno bank had approved the leases the loans were justified.

### KAISER-FRAZER CORP. AND KAISER-FRAZER SALES CORP.[4]

Kaiser-Frazer Corp., established August 9, 1945, as a corporation of Nevada, is engaged in the manufacture of Kaiser and Frazer automobiles, which are distributed to dealers through a wholly owned subsidiary, Kaiser-Fraser Sales Corp. Together, the two corporations owed the RFC a total of approximately $62,000,000 on May 31, 1951. The parent corporation also owed the Government's General Services Administration $12,231,000 on purchase-money mortgages covering the Willow Run plant. Interest is excluded from both figures. The operating losses of Kaiser-Frazer Corp. and subsidiaries from the date of the first RFC loan to the end of 1950 totaled approximately $20,000,000.

According to the 1949 annual report of Kaiser-Frazer Corp., secret negotiations for an RFC loan were begun early in the summer of

[4] Details set forth in S. Rept. 552, 82d Cong., 1st sess.

1949, continuing for 5 months. After the RFC directors had given indication that the request would be favorably considered, but before any commitments had been made, a formal application was filed directly with the Washington office of RFC. The application was for a 10-year direct loan of $30,000,000, the proceeds to be used for engineering, retooling, and working capital in connection with initial production of new lines of automobiles. At the same time, Mr. Edgar Kaiser, the applicant's president, advised the RFC of the intention to make further application for a $15,000,000 line of credit to enable the corporation to place stocks of cars in the hands of dealers.

The Washington examiner, J. F. Williams, recommended that RFC lend $24,400,000 and that the "Kaiser interests" supply $10,000,000 in working capital which could be withdrawn only in limited amounts and over a 10-year period.

The files do not show what action was taken by the Washington review committee on this application. This would normally indicate that the review committee did not take the application under consideration. However, it was represented to the subcommittee that, although the review committee did not report upon the Kaiser-Frazer application, it did have the loan under consideration for several days, and, contrary to the usual custom, each of its members was called before the Board of Directors and individually polled as to his views. It has been represented to the subcommittee, also, that the review committee members regarded the collateral as adequate, but that each one expressed doubt as to whether the loan could be repaid from earnings.

On October 6, 1949, the Board of Directors of RFC approved a 10-year, direct, 4-percent loan of $34,400,000, repayable $940,000 each January 2 and $2,500,000 each July 1, beginning in 1951.

The fact of the negotiations between Kaiser-Frazer and the RFC first came to public notice after the loan had been approved. The chairman of the subcommittee thereupon made inquiry, to which the RFC replied, stating that the loan was well secured and would be repaid. Upon receipt of the letter from RFC, the chairman wired the RFC, asking that the loan be held up until the subcommittee could give it consideration. Other members of the subcommittee joined in this request. The RFC declined to do so.

The alternative to approval of the first Kaiser-Frazer loan application, in October 1949, was liquidation of the applicant's enterprise. Liquidation would have had serious effects on the company's employees, on its dealers, distributors, and suppliers and their employees, on its investors, and, at least insofar as reputation was concerned, on Henry J. Kaiser and his associates in what are known as the Kaiser interests. The effects which liquidation of the automobile company would have had on the Kaiser interest would undoubtedly have been felt in important American industries other than the automobile industry, and they might have had important repercussions in those industries. In the circumstances, it was a difficult decision which the RFC was called upon to make.

Notwithstanding these things, the subcommittee felt that the RFC should not have made the original loan. It does not believe that the interest of the general public was such as to justify the use of public

funds to continue operation of Kaiser-Frazer as an automobile company.

According to the records of the lending agency, the application for the second RFC loan, $10,000,000, was considered by both an examiner and the review committee in the Washington office of RFC. The examiner gave a favorable recommendation for a loan of $15,000,000; the review committee recommended that the loan not be made because of uncertainty regarding the borrower's ability to produce automobiles successfully under its then financial structure. The loan was approved for $10,000,000 over this objection.

In explaining the Kaiser-Frazer loans publicly, after they had been made, the RFC gave as significant reasons for the granting of the loans the explanation that they would enable the borrower to provide employment for thousands of workers, to assist and encourage many small businesses, to increase production in a number of manufacturing fields, and to promote in a general way the economic stability of the country. At the time the loans were made, however, employment was at a peak and unemployment was unusually low in the borrower's principal industrial area, and the stability of employment within the borrower's national organization was the relative stability of a reorganizing body rather than the more settled stability of an established body.

It appears that the explanation given publicly by the RFC was less than complete.

Although the original purpose of the second RFC loan ($10,000,000 to the Kaiser-Frazer Sales Corp.) was to provide financing so that stocks of completed automobiles could be placed with dealers and distributors, the agreement governing the loan was later amended to permit its use as working capital by the manufacturing company. In approving this change the RFC accepted as collateral parts and accessories and accounts receivable from the sale of finished automobiles.

The third RFC loan, $25,000,000, was examined in the Detroit RFC loan agency as well as in Washington. Although its manager later concurred in a favorable recommendation, the Detroit agency first turned the application down at all examining and reviewing levels. The Washington review committee also recommended that the application be declined, giving as reasons the extended financial condition of the borrower, and the fact that "the loan would, to some extent at least, appear to circumvent regulation W," promulgated by the Federal Reserve Board in its effort to combat inflation. The Washington examiners gave a favorable recommendation, and the loan was approved by the Directors. According to the Chairman, the RFC wanted to see the company continue in production because the loans already made would be somewhat less secure if the company were forced to shut down.

HOMER E. CAPEHART.
JOHN W. BRICKER.

## INDIVIDUAL VIEWS OF MR. BENTON ON THE MINORITY REPORT OF THE SUBCOMMITTEE ON THE RFC OF THE BANKING AND CURRENCY COMMITTEE

As a member of the Banking and Currency Committee, I gladly recognize the rights and privileges of the minority members of this or any other committee. However, I deem this a most suitable time to point out that a minority has obligations as well as rights. I do not feel that the minority of this subcommittee has sufficiently recognized its obligations.

The minority document is not dedicated to legislative improvements and recommendations. Only one legislative recommendation is made and that is to abolish the RFC.

Instead, the minority report abounds with false innuendoes. Much of it doesn't even deal with the RFC. Further, it is not restricted to matters supported by the record of the subcommittee proceedings.

There is involved in this minority report a matter of grave concern that is far more important than the damage to the reputations of some of the individuals mentioned, or than any other immediate political consideration. There is today a growing threat to our American concept of individual rights. Congressional committees and individual members increasingly have been using Congress as a forum to attack individuals for partisan political advantage. This minority report is another step and a big step, down that unhappy road. The results of such reckless charges are often tragic for the individual. Unfair publicity is a severe blow in itself. False charges are sensational; later denials are anticlimactic.

I believe, as do many of my colleagues, that each Member of Congress has a duty, when he criticizes a person in a speech or official report, to support every allegation, innuendo, or inference with reasonable evidence.

This minority report seems to me a political document designed to undermine confidence in our Government. As such, it is a reflection on the work of this subcommittee.

There are, however, many parts of the minority report which are wholly accurate. Senator Fulbright's committee has already brought to light many things about the RFC and its operation which should be condemned. Without the leadership of his subcommittee, we might not now have a single, responsible administrator—Mr. Symington's record, I might add, shows him to be one of the ablest men in the Government—we wouldn't have the bill now before Congress, as recommended in the majority report, which promises still further to clarify the role of the RFC.

*The following comments are therefore offered in no sense as a defense of those RFC operations which on testimony of RFC officials themselves are regrettable, and which are to be condemned not only by the Congress but by the American people.*

However, there are many serious aspects about this minority report and the circumstances of its publication. The majority report was

held up for a full month, and not even made available to any members of the committee, apart from the Subcommittee on the RFC, until Wednesday morning, August 15. This hold-up was in order to give the minority of the subcommittee a chance to prepare its report. On August 15 the full committee then had only 2 days to read and try to understand not only the majority report but the 135 pages of minority material which was submitted at the same time. In contrast to the full month which was allowed the minority of the subcommittee to prepare its report, the full committee members were then allowed only from Friday, August 17 until Monday, August 20, over a week end, to develop their own comments—if they wanted the comments to be released to the press at the same time as the majority and minority reports.

In view of this lack of time, I have therefore attempted to do nothing more than to develop a series of specific comments on some of the material in the minority report. These don't in any sense begin to exhaust the points that can be made in support of the above statement. I have selected a few of the paragraphs and sentences from this report which demonstrate that the minority report "abounds with false innuendoes" as stated above. The time has been limited, or I would have pursued the matter further.

The tone and spirit of this minority report is so misleading that it contaminates many sections of the report which are accurate. I believe many readers may be led to the conclusion that many of the innocent people mentioned in the report acted improperly even though they are completely innocent of any wrongdoing. The very mention of anybody's name in this minority report will connote to many readers an association of guilt.

I would have preferred to have my comments on the minority report printed on the same page of the minority report about which I am commenting (as footnotes, as it were), over my signature, but unhappily I was not able to secure agreement on this. I am sorry if there is difficulty in understanding the following material and in relating it to the minority report:

Example 1 (introduction, p. 1 of the minority report):

> The first reservation concerns the continuance of the Corporation. In the judgment of the subcommittee's minority, the study of the operations of the RFC has been sufficiently broad to reach a fully justified and substantial conclusion. That conclusion is that the Corporation should be abolished * * *.

My comment: This approach is an apparent attempt to accomplish by indirection what the minority was unable to accomplish directly and what in fact was never intended in the resolution authorizing the investigation. As the majority pointed out, the subcommittee under Senate Resolution 219 has never addressed itself to the question of whether the RFC should or should not be continued as an agency. Obviously, therefore, we are not in a position to deal with this question in this report. Moreover, the Senate Banking and Currency Committee has reported without recommendation proposals to abolish the RFC as well as proposals to amend the existing structure. It is of special interest that the House Committee on Expenditures in the Executive Departments, which did go into certain defense activities of the RFC, has recommended unanimously (see p. 8, H. Rept. No. 504, 82d Cong., 1st sess.)—

> Consolidation of the administration of the loan program in an agency possessing experienced banking personnel, such as the RFC.

Example 2 (introduction, p. 3 of the minority report):

The name of William M. Boyle, Jr., chairman of the Democratic National Committee, figured prominently in the hearings devoted to this aspect of the investigation.

My comment: The hearings would seem to indicate that it is not correct to say that the name of William M. Boyle, Jr., figured "prominently" in the investigation. The fact is that the prominent name of William M. Boyle, Jr., figured incidentally in the investigation. It is also a fact that the name of Guy Gabrielson, chairman of the Republican National Committee, figured in the proceedings. And so did the name of Senator McCarthy.

Example 3 (sec. 2, p. 2 of the minority report):

* * * the principals in the picture of White House influence on the RFC, as drawn by and from witnesses before the subcommittee, are members of the Presidential staff, minor employees, political hangers-on, and self-proclaimed cronies.

My comment: This statement suggests that various persons associated with the White House were successful in influencing loans. If this is true, it is incumbent upon the minority to name the loans influenced, the persons influencing them, and to give the facts and circumstances surrounding them. Failure to cite facts illustrates the technique employed of creating an atmosphere of suspicion of the entire White House staff without substantiation.

Example 4 (sec. 2, p. 4 of the minority report):

It is sufficient for the purpose of this report to point out that Walter Dunham, a director of the RFC, was so deeply impressed with Mr. Young's importance that, when Mr. Young's employer, an RFC borrower, decided to terminate his employment, the director telephoned Donald Dawson in order that the President might be advised.

What Mr. Dawson thought of Mr. Young's influence at the White House is not directly known, but it is certainly relevant that Mr. Dawson took the precaution of notifying the President and relaying the President's very proper response to Director Dunham.

My comment: From the testimony, it would seem to be clear that Dunham called Dawson to report that Strandlund, president of Lustron, thought he could resist RFC-imposed economies by threatening to fire Young. Dunham was concerned that so ridiculous an impression could exist. He felt that the White House would be disturbed and for that reason reported it to Dawson. Dawson in turn reported it to the President, not for clearance, but as evidence of an undesirable situation. The President told Dawson to quash any misimpression by making it clear that Young's separation did not concern the White House (record, pp. 1331; 1813).

Example 5 (sec. 2, p. 6 of the minority report):

It is worthy of note that Mr. Young did not take any civil-service examination during his employment with the Corporation. Further, approximately a year after his employment with RFC, Mr. Young's record shows he was "reinstated" as an examiner, over the signature of Donald Dawson, at his starting salary of $4,500.

My comment: During this period there were no civil service examinations for these positions; "war service" regulations were in effect. The term "reinstatement" is simply a technical term required by Civil Service regulations for veterans returning to Government service and other special personnel transactions.

Example 6 (sec. 2, p. 16 of the minority report): As we have stated before, the question of whether Merl Young could influence official decisions is really not the vital one.

My comment: It may be true that Merl Young influenced loans and there is evidence to suggest that he did. But it is also significant that the hearings were unable to prove that he had any direct influence over any one single loan.

Example 7 (sec. 2, p. 17 of the minority report):

> Mr. Dawson was mentioned in the third interim report as one to whose influence the RFC board had been unusually receptive. He denied that he had any influence and, more emphatically, that he had ever tried to influence the RFC Board.
>
> The testimony of Walter Dunham, a nominal Republican member of the Board, is certainly not on all fours with Mr. Dawson's contention.

My comment: The hearings do not prove the truth of this statement. Dunham denied Dawson had tried to influence him. He said that Dawson had no interest in specific loans and in fact that he could not remember ever discussing a loan with Dawson. He exempted Dawson from the so-called "influence ring," whose motives he had come to doubt (record, pp. 1373, 1377, 1378, 1712). It is an interesting tactic of certain Republicans that when other Republicans don't wholly concur with their strategy or tactics to defame the processes of our Government, they suddenly become only "nominal Republicans."

Example 8 (sec. 2, p. 18 of the minority report):

> For example, Mr. Dawson readily admitted his propensity for frequent luncheons with Young, Dunham, Willett, Jacobs, and others, but stated they were more social than official, and directed, if at all, to the end that the President's official family might be one big happy one.

My comment: According to Dawson's testimony, his luncheons with the above persons were not unduly frequent and cited Dunham's diary as set forth in the record to show only 10 luncheons in 17 months (record, pp. 1816, 1817). The last clause in the statement quoted above is entirely unsupported by the record.

Example 9 (sec. 2, pp. 18–19 of the minority report):

> Purely social, too, Mr. Dawson informed the subcommittee, were the many telephone calls between Dunham and Dawson and Young and Dawson.

My comment: The record would not seem to show any phone calls between Young and Dawson. As to phone calls between Dunham and Dawson, the record reveals only 17 in 17 months, principally to arrange the aforementioned luncheon engagements (record, pp. 1762, 1763).

Example 10 (sec. 2, p. 19 of the minority report):

> The full extent of Mr. Dawson's influence and attempted influence on the RFC Board cannot be known.

My comment: This is pure innuendo. The minority report does not cite even one instance of the exercise of influence by Dawson. Meanwhile Dawson's own uncontradicted sworn testimony (record, p. 1712) as well as other pertinent portions of the record show:

Director Willett denied that Dawson ever influenced him (p. 655–656).

Director Dunham denied that Dawson ever did or tried to influence him, at one point stating: "His general attitude was that he had no interest in specific loans," (p. 1373). Dunham further testified, "I

have no recollection of ever discussing a loan with Mr. Dawson" (pp. 1377–1378). Dunham also stated that he began to doubt the motives of some of his associates, but testified, "No, sir, I have no doubt about Mr. Dawson" (pp. 1337–1338).

Director Rowe stated under oath: "Donald Dawson has never called me about a loan" (p. 1607).

Director Cosgriff testified: "No one at the White House, neither the President or any of his assistants or secretaries, has ever telephoned me or communicated with me in any way seeking to influence my decision regarding any RFC matter nor has any Director at any time intimated to me that the White House was interested in the outcome of any matter pending before RFC," (p. 1654).

The only other Director, Chairman Harber, was not questioned by the committee on this point.

Example 11 (sec. 2, p. 20 of the minority report):

> He (Dawson) apparently saw nothing wrong in accepting the hospitality of the Saxony management.

My comment: If the minority were fair, it would report that the testimony revealed that Senators of both parties accepted the same hospitality (record, p. 1263). I happen to feel that the acceptance of such hospitality was a mistake on the part of Mr. Dawson and a mistake on the part of Senators of both parties. Mr. Dawson seemed to feel that the news stories and publicity photographs incident to his visit to the Saxony were at the motivation of the hotel and this may have been true in his case and also in the case of the Senators of both parties.

Example 12 (introductory comment by Senator Benton on minority report, sec. 3): With reference to the chapter, The RFC and Congress, the minority report can best be evaluated by observing the double standard which it applies. In the case of communications from members of the executive branch of the RFC, it accepts without question that these communications were in the nature of improper pressures upon the agency. However, the minority reasons that in the case of similar communications from Members of the Congress—by far more numerous than any shown in the record from the executive branch (record, p. 757) these communications "contained no indication of undue pressure by Members of Congress on the RFC to make loans against the will of the Board of Directors * * *." The minority proceeds on the assumption that the RFC was in a position to resist pressures from Congress "in a straightforward manner with propriety and without great difficulty" whereas it was not in a position to resist pressures from the executive branch.

Example 13 (sec. 3, p. 5 of the minority report):

> His (Dawson's) testimony tended to clear, unequivocally, the Members of Congress from any irregular relations with RFC, as far as the evidence from the files was concerned.

My comment: This again would not seem to be in line with the record of the hearings. Dawson testified that he had only read 15 or 20 of the letters (record, p. 1743).

Example 14 (sec. 4, p. 2 of the minority report:)

> Isolated betrayals of the public trust may be expected even when the President and the chairman of his national committee adhere to a high standard of ethical conduct. Wholesale violations of public trust are not likely to occur unless aided and abetted by the chairman of the national committee of the party in power.

My comment: There is no evidence to support the inference that there have been "wholesale violations of public trust."

My additional comment on section 4, pages 2 and 3: On the first pages of section 4, the minority makes reference to the case of John Brown in agency X who is subjected to improper influences by the chairman of the Democratic National Committee. It is not surprising that the minority uses a hypothetical example because there is no evidence in the record that any such incident ever occurred.

Example 15 (sec. 4, p. 3, of the minority report):

> With millions of dollars available, and in the absence of any definite criteria for distinguishing good and bad loans, the leadership of the Democratic National Committee under the Truman administration has shown that it is willing to supply a political standard for RFC loans which at least has the merit of being definite, readily understandable, and easily administered.

My comment: The minority does not cite one loan granted under a "political standard." The assumption that there are no definite criteria for distinguishing between good and bad loans is transparently insincere.

Example 16 (Sec. 4, p. 7, of the minority report):

> Mr. Dunham later gave ample proof of his ability to work in harmony with Donald Dawson, William Boyle, Jr., and officers of the Democratic National Committee.

My comment: It is significant that not one loan that Mr. Dunham voted for is cited as showing the result of any influence exerted over him by anyone. It is not shown how the White House or Democratic Committee has benefited or sought to benefit from Dunham's presence on the Board.

There is no testimony to show that Republicans have received fewer loans in number or amount than Democrats. This report brings out that the chairman of the Republican National Committee succeeded in obtaining an $18,500,000 loan for his client.

Example 17 (sec. 4, p. 16, of the minority report):

> Mr. Parker was not appointed to the board of Preferred Accident, an RFC borrower.

My comment: This is the whole point. Parker was not appointed so what influence did Boyle have? The minority is unable to pin down a case where alleged influence paid off—but here is one specific concrete example where it did not.

Example 18 (my comment on pp. 17 to 19, sec. 4, of the minority report): Pages 17 to 19 of section 4 represent an excursion into an area totally without the knowledge and jurisdiction of the committee. The investigation of job sales in Mississippi has absolutely no place in the report of a subcommittee of the Banking and Currency Committee dealing with the RFC. The Subcommittee on Investigations or the Senate Committee on Executive Expenditures has already conducted an investigation into this. The inclusion of such material in this minority report dramatically demonstrates the political objective and character of the report.

Example 19 (sec. 8, p. 5 of the minority report):

> The RFC Board's indifference leaves the minority of the subcommittee no alternative except to conclude that the Board was unduly influenced by Donald Dawson, William M. Boyle, Jr., and others, as discussed more fully elsewhere in this report.

My comment: This conclusion is a non sequitor, unsupported by the record. Not one of the loans specifically criticized (starting on the next page of their report) is attributed to the exercise of influence by Dawson or Boyle. I cite this again because the same statement of innuendo weeds in and out of the entire minority report, without one example produced as proof.

Example 20 (sec. 8, p. 24 of the minority report):

> The name of the Republican National Committee chairman, Guy Gabrielson, was brought into the hearings on Carthage Hydrocal. Attempts were made to charge Gabrielson with influence peddling, although the hearings failed to substantiate the charge.
>
> For example, RFC Director Gunderson declared he had never talked to Mr. Gabrielson, and he knew of no one in the RFC who had talked with him until after the loan was made, at which time he was elected president of the company. Mr. Gabrielson also denied he had tried to influence RFC, pointing out that the loan was negotiated before he became president of the company and before he became Republican National Committee chairman.

My comment: I am certainly not going to make any charges of improper influence against Mr. Gabrielson with whom I am not acquainted. However, the above statement is manifestly an effort to clear him. I regret any unjustifiable inferences against Mr. Gabrielson just as I do against Mr. Boyle. I point out, however, that the minority is willing to accept Mr. Gabrielson's unsworn statement whereas it is not willing to follow the same procedures with Mr. Boyle. I further point out that it was never demonstrated that Mr. Boyle influenced a loan or received a fee for so doing while Mr. Gabrielson personally testified to the receipt of a fee in excess of $100,000 for his efforts on behalf of his client who received a loan of over $18 million.

Finally, in conclusion, I should like to repeat an earlier paragraph of my views: "The * * * comments are * * * offered in no sense as a defense of those RFC operations which on testimony of RFC officials themselves are regrettable, and which are to be condemned not only by the Congress but by the American people.

WILLIAM BENTON.

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